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Division of Economics and History

# ECONOMIC AND SOCIAL HISTORY OF THE WORLD WAR

*British Series*

JAMES T. SHOTWELL, PH.D., LL.D.

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# WAR & INSURANCE

By SIR NORMAN HILL ; S. G. WARNER  
SIDNEY PRESTON AND A. E. SICH; SIR A. W.  
WATSON, K.C.B.; SIR WILLIAM BEVERIDGE  
SIR WILLIAM SCHOOLING, K.B.E.

With an Introduction by  
SIR WILLIAM BEVERIDGE

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## EDITOR'S PREFACE

IN the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the programme of its researches to the new and altered problems which the War presented. The existing programme, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions ; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of an historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an 'Economic and Social History of the World War', it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double

obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents but also the co-operation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1919. In the first place a final conference of the Advisory Board of Economists of the

Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially towards those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey but rather as of contemporary value in the period of war settlement. It was clear that not only could no general programme be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the War, one based more upon national grounds in the first instance and less upon purely international co-operation. Until the facts of national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification was needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving, as it does, the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest co-operation of those in charge in each country.

Once the editorial organization was established there could be little doubt as to the first step which should be taken in each

instance toward the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the form of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

This first stage of the work upon the war history, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research. And had the plan of the history been limited to research based upon official documents little more could have been done, for once documents have been labelled 'secret' few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first- or at least second-hand knowledge the economic history of different phases of the Great War, and of its effect upon society.

Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about half-way between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary, war-time studies; for the economic history of the war must deal with a longer period than that of the actual fighting. It must cover the years of 'deflation' as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgements.

With this phase of the work the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude towards those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to this monographic treatment of source material, a number of studies by specialists is already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible

later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization, in the first stages of a history like this one is only 'picking cotton'. The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied co-operation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programmes of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

J. T. S.



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I

INTRODUCTION

BY

SIR WILLIAM H. BEVERIDGE



## INTRODUCTION

THIS volume presents, under the general title of 'Insurance', five separate contributions by different writers, all of whom have been a large part of that which they describe. To these is added a sixth paper on the National Savings Movement, a subject that could not be omitted from any full economic history of the war and that falls perhaps more appropriately in this volume than in any other. A few words of introduction illustrating the points of contrast or likeness between the various topics thus assembled may not be out of place.

Insurance is a sharing of risks. It assumes a danger threatening a number of individuals, in such a way that the danger is certain actually to strike a fairly definite proportion of them, while it cannot be determined beforehand which individuals will be struck. Provision for this danger is appropriately made by arranging for payments in respect of all the individuals threatened, to form a fund out of which compensation is given to those to whom the threat comes home. For three main types of risk considered in this volume—premature death, loss of property by fire, and loss of ships or cargo at sea—insurance developed voluntarily as a business practice. For two others—sickness and unemployment—a new institution of 'social insurance', conducted by the State and resting on compulsion, had come into being in the last years before the war. In all these five fields of insurance the war produced violent disturbance, upsetting all previous calculations and calling for new measures.

The State scheme of insurance against war risks at sea, which is described in the first paper by Sir Norman Hill, was in substance a war measure. The risk with which it dealt—damage by warlike action—had been habitually excluded in all ordinary contracts of marine insurance. The fear that outbreak of hostilities might drive every British ship to harbour

and so cut off instantaneously the flow of indispensable imports had long occupied the minds of those who, in this country, had to consider the eventualities of war, but this consideration had not, till the eleventh hour and fifty-ninth minute before 4th August 1914, led to the definite adoption of any plan for preventing this disaster. How, up to the Thursday before the actual outbreak of war on Wednesday, it still seemed uncertain whether any, and if so, what plan would be adopted, how on Sunday midnight the decision was at last announced, and how under the scheme, ships continued to voyage and the premiums required to cover the risks fell steadily for more than two years, is dramatically told by Sir Norman Hill. With the end of 1916 the tide turned and the progress of the submarine campaign is marked by rises of premiums and losses made by the insurance funds till shipping control was completed in August 1917. Few, after the event, will doubt that the State scheme of insurance against war risks at sea served its immediate purpose well; but at least as striking as Sir Norman Hill's account of the insurance scheme's success is his reference to its dangers. By a false sense of security, insurance here, as elsewhere, may easily lead to postponement of effective measures of prevention.

State insurance against war risks by sea was required to fill a gap excepted in ordinary underwriting contracts. On land two similar gaps appeared. One was the exception of damage due to civil riot; this was covered without State intervention by an extension of the ordinary policies for additional premiums. The other gap was the exception of damage by warlike action; this led to the introduction in July 1915 of a State scheme of voluntary insurance against aircraft with or without the risk of naval bombardment. In this the State took the risk, using the insurance companies as agents; the State further, from September 1917, in effect granted universal free insurance up to £500. In this field also the original estimate of the risk proved fortunately to be excessive. Though the premiums were halved after February 1917, the Government on the whole transaction made large profits; the premiums paid up to the

end of 30th November 1918 were more than £13,000,000, and the claims paid and outstanding were less than £3,000,000.

These and other matters relating to Fire Insurance are dealt with in the paper by Mr. Sydney Preston and Mr. A. E. Sich. In the same paper emphasis is laid on another point of general interest. Industrially, the war period was one of unparalleled activity. The demand for materials, machinery, factory accommodation, and labour exceeded the supply as never before. Nearly all the characteristics of an industrial 'boom' appeared in an intense degree. One of these, as most readers will be surprised to learn from Messrs. Preston and Sich's paper, is a marked diminution of fires in business premises. The explanation offered, that an appreciable proportion of fires is caused deliberately and that this proportion rises in times of bad trade when factories are a drug on the market and falls conversely in times of good trade, is startling. Yet this 'moral hazard', if real, is no more than the counterpart of the similar movement of sickness claims in health insurance. When workpeople are earning good wages for full time and overtime they don't or can't afford to be ill; when work is slack they claim sickness benefit if ever they get the chance.

This movement shows itself unmistakably in the record of health insurance during the war, compiled by Sir Arthur Watson and his assistants. But the falling off of sickness claims was only one of many ways in which the health insurance scheme introduced in 1911 benefited financially by the war. The first valuation of the Approved Societies was taken as at 1st December 1918; the outstanding feature of its results was that in 96 per cent. of all the societies surpluses were disclosed, amounting on an average to more than £1 per head. Sickness, as already stated, was below expectation. Claims for disablement benefit by men were less than half the expectation; a result no doubt due largely to the retention of employment by ageing persons who might otherwise have retired. The low birth-rates of war years reduced maternity claims. The high death-rates of men of military age were equally profitable

to the finance of health insurance; they were cut off after contributing for some years of low sickness risk and before reaching the later years when health declines. While claims and liabilities were thus cut down in many directions, income grew, both because payment of contributions was less broken by sickness and unemployment and because the rate of interest rose.

While the State scheme of health insurance has thus actually benefited in so many ways through war-time conditions, the companion scheme of unemployment insurance has had a career of chequered fortunes. The brief opening panic increased claims for a few weeks in August 1914, but the rest of the war period was one of ever-increasing prosperity and the unemployment fund mounted steadily. Unfortunately, the prosperity was so dazzling as to blind most men's eyes, and practically no provision was made for the inevitable depression after the war. After 1918 the original scheme of insurance was overlaid by a series of emergency measures—free 'doles' and uncovenanted benefit and the like; the reserve fund melted in a moment. Though, by experience of the British scheme since 1911, the necessity and practicability of insurance as a means of providing for unemployment has been demonstrated beyond reasonable question, the long-drawn depression since 1920 has shown both the limitations of insurance and the inevitability with which governments take the easy line of perpetually extending and increasing its benefits.

To the last class of business here considered—life assurance—as to unemployment insurance, the war brought both loss and gain. This may be followed in detail in Mr. S. G. Warner's paper. One contrast between the financial experience of the Life Assurance Companies and the Approved Societies for health insurance through the changing rate of interest, is so important as to require special notice here. Both types have benefited and stand still to gain by the higher rate of interest. But this higher rate implies a capital depreciation of old investments in fixed interest securities. The depreciation has been of little moment to the Approved Societies; they had



barely begun accumulation when the war came. To the Life Assurance Companies it was a very serious matter indeed; the extent to which the loss has been and is being made good by the higher interest that can be earned on new accumulations is still uncertain.

It is not the object of this Introduction, however, to summarize all the many important questions answered or raised in the papers that follow. Enough will have been done if the few points cited serve to illustrate the diverse and often unexpected ways in which the war influenced the whole of our economic structure. For this a study of the various insurance schemes has peculiar value. In their fortunes the changing fortunes of the community are well reflected.



**STATE INSURANCE AGAINST  
WAR RISKS AT SEA**

**BY**

**SIR NORMAN HILL**



# STATE INSURANCE AGAINST WAR RISKS AT SEA

## I. THE FORMATION OF THE SCHEME

THE policy of attacking the sea-borne trade of an enemy is no new thing. It has always played an important part in maritime warfare, and therefore the problem of the defence of our oversea trade has always been with us ; but in the three generations preceding the war our dependency on oversea trade had increased, until from the time when we as a nation had to maintain that trade that we might prosper, we have now to maintain day by day that trade to enable us to live. Further, the change from sail to steam, and the development of cable and wireless communications, had added new, and in great measure untested, factors that could be used both for and against the maintenance of oversea commerce.

The British Admiralty held that the command of the sea is essential for both the successful attack and defence of commerce, and that therefore the primary duty of a fighting navy was to secure and maintain such a command. It followed that the best defence of our commerce was the concentration of our naval power on this primary duty, and that the dissipation of such power in an attempt to defend each and all of our trading vessels must lead to disaster. Neither the Admiralty nor the nation foresaw the development of submarine warfare against commerce, and during the war it was only after terrible loss that it became obvious that command of the sea, to be effective, must extend to underwater warfare. But the Admiralty foresaw that however strong and well prepared our fleet might be, it must take time before such a command of the sea could be obtained as would secure to our trading vessels the degree of freedom that would enable their voyages to be made with reasonable prudence ; and the Admiralty always recognized that it would be impossible to protect every trading vessel.

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It was such considerations as these that forced to the front schemes for National Indemnity, and National Insurance against Maritime War Risks. The object of both plans was the same : that the State should assume responsibility for losses to oversea trade resulting from war perils.

It was believed by all those who studied the question that if the Navy were maintained at sufficient strength the actual losses would prove far less than was generally anticipated ; and that what was to be feared most was not the actual losses but rather that disorganization in the steady flow of trade which must result if the shipowners, the merchants, the bankers, and the underwriters were called upon to face on the outbreak of war what must then be unknown and unmeasured risks. It was believed that, in time, the oversea trade would adjust itself as it always had to war conditions, on terms which would leave satisfactory profits to those engaged in the trade ; but it was also believed that the suffering and loss to the nation whilst such process of adjustment was proceeding would be acute.

The proposal that the State should assume responsibility for war losses at sea without making a charge was described as indemnity, whilst the proposal that the State should assume responsibility as against the payment of a premium was described as insurance. Both schemes were based on the same principle, and in application they would both throw, in the one case directly, and in the other indirectly through the premiums, the burden of the war risks on those dependent on our oversea trade, that is to say on the nation at large. But under the indemnity scheme only the actual losses would have to be met, whilst under the insurance scheme the premiums charged might exceed those losses.

From 1886, and possibly earlier, these schemes were discussed and canvassed by underwriters, merchants, and bankers, and sometimes even by politicians ; but it was only the shipowners' associations that worked year after year to get them into a practicable form, those being the only trading organizations in this country who consistently devote their

attention to the conditions under which our oversea trade is carried. Our manufacturers and merchants, so far as the cost of transport is concerned, only interest themselves in two questions: what is the freight? and what is the cost of insurance? They rarely devote serious attention to the factors that go to make up the cost of oversea carriage; whilst the underwriter's business is to take the risk whatever it may be, provided it can be covered under the law of average, by premiums which in the aggregate will more than cover the losses. The result was that, somewhat unfortunately, the proposals came to be regarded as merely shipowners' schemes, and as such they were suspect, although consistently supported by men who could speak with great authority from the Admiralty point of view.

The war in South Africa had forced the nation to consider the necessity for national preparation, not only from the military but also from the economic standpoint, and in 1903 an association was formed to promote an official inquiry into the security of our food-supply in time of war. The Duke of Sutherland presided, and its members represented every class and every interest in the community. In the statement issued upon its formation, this Association pointed out that more than three-fourths of our population was dependent upon food which was imported from abroad, and therefore liable to capture on its way to our shores in the event of a war between Great Britain and any of the Great Powers; it added that many of the most eminent men of business in the corn trade had signed their names to the opinion 'that if Great Britain should become involved in a European war the country must be prepared to see bread at famine prices to the poor'. The representations made by this Association to Mr. Balfour's Administration led in 1903 to the appointment of the Royal Commission on Supply of Food and Raw Material in Time of War. On this commission Lord Balfour of Burleigh acted as Chairman, and His Majesty King George V served as a member. The inquiry was of the most searching character, and the Report proved a very able forecast of our economic conditions during the late war.

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The Royal Commission confirmed, if confirmation were needed, our dependency upon our oversea trade for both our food-supplies and the raw material needed for our factories. It found that one-half of the meat consumed in the United Kingdom was imported, and of the wheat and flour nearly four-fifths of our total requirements came from oversea. The Report further made clear how small were our stocks, and how much we depended on the steady flow of imports. Of wheat we had usually about 17 weeks' supply in hand in the month of September, but throughout the year the stocks ranged from 7 to 17 weeks, whilst in August they would sometimes fall even below 7 weeks' supply. On the other hand, the Royal Commission showed how widely the sources of our supply were distributed geographically, and how great was our power of drawing upon one source to compensate for failure in another.

Upon the main question the Royal Commission found that while there would be some interference with trade and some captures, 'not only is there no risk of a total cessation of our supplies, but no reasonable probability of serious interference with them, and that, even during a maritime war, there will be no material diminution in their volume, unless we lost command of the sea'. But while holding this view, the Royal Commission made it clear that they regarded with much concern the effect of war upon prices, and especially therefore on the condition of the poorer classes.

In considering the question of prices the Royal Commission distinguished between the *economic* rise, caused by actual deficiency, if any, of imports, as also by the enhanced cost of transport, and the *psychological* rise due to apprehension and uncertainty as to what was going to happen. It was in their opinion the risk of a panic rise of prices that was to be feared. This risk was even greater than they foresaw, because they had not clearly before them the fact that owing to the colossal proportions to which the volume of trade had grown during a century of unprecedented expansion, the movement of the goods in transit had become dependent on credit provided by banks and discount houses.



Under the conditions of modern commerce, by far the greater proportion of the cargoes at any time afloat belong not to the producers, the merchants, or the consumers, but to the financial interests who have discounted bills of exchange representing the purchase price of the goods, and who hold as their security the bills of lading and policies of marine insurance. Under peace conditions there is no more attractive opening offered for the employment of capital. The security against all ordinary trading risks is ample, because the advance is repaid out of the selling price of the goods on the completion of the voyage, or if the goods be lost, out of the insurance money. Moreover, the bills of exchange against which the advances are made afford the most convenient means for the adjustment of international exchange, and they therefore pass freely from hand to hand, and from country to country in the process of these adjustments. In fact, international finance is in very great measure based on the security afforded by the bill of exchange drawn against goods in transit, and it is to that extent dependent on the security of not only the bill of lading for the goods, but also on adequate insurance against the risks incident to the transit. If such security be called in question, the whole complex web of international finance, and with it the flow of oversea trade, is imperilled, and cannot be re-established on the basis of the economic rise in prices resulting from actual or apprehended deficiency. The merchants have not the capital to risk, and the credit they require is based on security, because the banks and discount houses work for an interest return on the capital they provide, and will not assume the position of sellers, with the chance of either profit or loss, as the markets may fluctuate. What, therefore, was to be dreaded above all else was the influence of war panic on international credit, which is always exceedingly sensitive, and particularly responsive to the influence of war perils.

The Royal Commission gave careful consideration to the proposals for national indemnity or insurance against maritime war risks, and they closed their Report with the following paragraph, every word of which has been justified by the

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experience of the most bitter, and on the part of the enemy the most brutal, war in which this country has ever engaged :

‘ We look mainly for security to the strength of our Navy ; but we rely in only a less degree upon the widespread resources of our mercantile fleet, and its power to carry our trade, and reach all possible sources of supply wherever they exist, and we believe that a guarded and well-considered scheme of National Indemnity would act as a powerful addition to our resources, because it would tend to keep down the cost of transport and therefore go far in the direction of preventing high prices in time of war, while at the same time it would be a stimulus to the enterprise of British Shipowners.’

Notwithstanding this Report, the adoption of a system of State guarantee against war risks was still a long way off. The Royal Commission recommended that a small expert committee should be appointed to investigate the subject and to frame a scheme, expressing the hope that there might be no undue delay in taking this step and in completing the necessary arrangements. Accordingly, in 1907, a Treasury Committee was appointed, with Mr. Austen Chamberlain in the chair. The proposals for insurance and indemnity were again examined with care, but the Committee were ‘ unable to recommend the adoption of any form of National Guarantee against the war risks of shipping and maritime trade except that which is provided by the maintenance of a powerful Navy ’.

On the evidence placed before it, the Treasury Committee were dismayed at the apparent administrative difficulties and the unknown financial responsibilities attaching to the adoption of the system ; and these apparent difficulties were made to bulk very large. It was maintained by witnesses, who spoke with business experience, that the system was useless, unnecessary, and indeed impossible. It was argued that it was useless, because the payment by the State of the value of a ship or cargo lost could do nothing towards maintaining our supplies. It was even argued by one witness, that to give the shipowners the certainty of being compensated if their ships were captured, must stimulate them *in the pursuit of captors for the ship and of the consequent indemnity*. But it was forgotten that if we were to be fed, war perils must be run, not only by our seamen

but also by our business men, and that the surest way to secure that business ventures would be attempted was by a guarantee against unknown and, from a business point of view, immeasurable risks. It was stated that the system was unnecessary, because the underwriting market had always in the past proved ready and willing to assume on reasonable terms, war risks ; but it was forgotten that the past afforded no basis upon which the market could measure the perils incident to modern naval warfare, and that even underwriters, without the experience of years upon which to base their averages, were liable to the psychological influences which the Royal Commission viewed with so much apprehension. It was urged that the system was impossible, both because the delays inevitable to any official methods of administration must be fatal to its commercial utility, and the inexperience of Government officials would invite, and render it impossible to detect, frauds ; but it was forgotten that the system would merely supplement, and not replace, commercial enterprise ; and as to the risk of fraud it was pointed out that business men are never deterred from action which is necessary and likely to produce broad good results because there are such risks. The last argument that the system should not be adopted because of the unknown financial responsibility attached to it, was pressed the hardest, but it was indeed the weakest of all the objections. It was because the losses could not be estimated that the system was necessary. If the State with all its resources shrank from the unknown, how could it expect the shipowner, the merchant, the banker, and the underwriter to regard the war risks as a mere matter of business at other than panic prices ?

The Report of the Treasury Committee was a disappointment, but not a discouragement, to the shipowners who for years had been working for the scheme. They were satisfied that it was necessary in the national interests, and that this was becoming more apparent every year. The underwriters, who for three generations had made money out of mere rumours of war, had been forced in the Spanish-American war, and far more in the war between Russia and Japan, to encounter actual

war losses. In consequence, although the insurance market was still prepared to take war risks from voyage to voyage, it became at first difficult, and afterwards impossible, to secure continuous cover from these risks in the Open Market. Even if the shipowner or the cargo-owner had been paying war-risk premiums voyage after voyage, the moment there was any serious ground for anticipating an outbreak of war the rates advanced and the market contracted.

To meet this new position the shipowners generally organized themselves on the line that had been adopted by the North of England Protecting and Indemnity Association in 1899, and associations were formed in 1912 in both London and Liverpool in which, together with the North of England Association, there was included, by 1914, nearly three-fourths of the British steamship tonnage employed in our overseas trade. The object of these associations was to insure ships, but not their cargoes, on the mutual principle against war perils, both in the case of war between two foreign nations, and also when Great Britain was one of the belligerents. When Great Britain was at war the cover was limited to the vessels actually at sea, or in an enemy port, on the declaration of war; and in the case of those vessels it extended only until the time of their first arrival at a British or neutral port which was a safe port for the ship to lie in. Vessels which were not at sea on the outbreak of hostilities, but were in a safe port, were held insured only while they remained there.

The organization of these associations was in one sense in direct opposition to the plan which had been favoured by the Royal Commission but rejected by the Treasury Committee, because their primary object was to restrain the vessels insured from running risks in any war in which this country was engaged. It followed that soon after the outbreak of such a war, all vessels insured in the associations would be found in safe British or neutral ports, and would remain there until they were able to obtain fresh insurance against the risks of war. But as the formation of the North of England Association in 1899 was the first step, the formation of the London and the

Liverpool Associations in 1912 was the next step taken towards what has proved to be the final solution of the difficulties.

The shipowners in their organizations had met, so far as commercial enterprise could do so, the immeasurable risks incident to our being involved in naval warfare, but the fact that they could not, as a matter of business, face the risks incident to the continuance of their trades after the outbreak of war, emphasized the urgent necessity for the State's co-operation. The gravity of the position was recognized, and a Sub-Committee of the Committee of Imperial Defence was appointed by the Prime Minister in May 1913

‘to consider without prejudice to the question of policy, whether an administratively practical scheme can be devised to secure that, in case of war, British steamships shall not be generally laid up, and that oversea commerce shall not be interrupted by reason of inability to cover the war risks of ships and cargoes by insurance, and which will also secure that the insurance rates shall not be so high as to cause an excessive rise of price. Any scheme prepared must be on the basis of reasonable contributions being paid by the owners of ships and cargoes towards the cost of insurance.’

This Sub-Committee made their report in April 1914. Happily they were relieved from considering the question of policy to which both the Royal Commission and the Treasury Committee had devoted so much time; but they had to solve the administrative difficulties which had bulked so large in the evidence given before the Treasury Committee. Previous failures had demonstrated that something more than a sound scheme was wanted; the organizations by which such a scheme could be worked must be found if the Sub-Committee's Report was to escape the apparently inevitable pigeon-hole. Further, the extent of the liabilities to be imposed on the State must be ascertained, if the opposition of the Treasury was to be overcome.

It was not possible to form any estimate of the probable captures by the enemy, but the Sub-Committee were able to show in detail the value of British steamships at sea, and of the cargoes on board those vessels, both throughout, and at any given period, of the year; and from these figures

it was possible to assess the extent of the liabilities, the scheme would impose on any percentage basis of captures the Admiralty thought necessary to assume. These values showed that the unknown financial responsibilities which had frightened the Treasury Committee were not of a very formidable character, for even an assumed loss in six months of 5 per cent. of all British steamships employed in foreign trade, and of the cargoes carried in those ships, would be covered by a charge of slightly exceeding 1 per cent. on the total values of such cargoes.

The essentials to a sound scheme were, first, effective control over the movements of the insured ships, so as to guard against reckless trading under cover of the indemnity; and secondly, the limitation of the amounts insured to no more than a fair and reasonable indemnity. The movement of the cargo could be controlled through the movements of the ships, and the Sub-Committee provided for the control of these by making their insurances dependent on their obeying orders. The question of values was a difficult one, but in regard to the ships the Sub-Committee recommended the hard and fast basis of the first cost, without allowance for the cost of alterations or additions, less depreciation at the rate of 4 per cent. per annum. This basis of valuation was a low one, but if the scheme were ever to be accepted in times of peace it was obvious, from the bitter attacks that had been directed against all previous proposals, that it must be made manifest that its object was not to find a convenient and lucrative market for the realization of ships by loss to the enemy, for which it was imagined every shipowner would be seeking.

There remained the question of administration. What was wanted in regard to the ships were organizations through which the movements of the insured ships could be controlled from the moment that war became imminent, and by which, during the war, the daily business of insurance could be carried on under ordinary business conditions and with ordinary business dispatch. It was manifest that such organizations could not be created at a moment's notice, and it was at least doubtful

whether the State, even if it could be induced to bear the cost, could on its own account build up and maintain on a peace footing any organization which would prove efficient from the moment war became imminent. The shipowners had the organizations, but as matters stood their energies would be used in avoiding war risks, and not in keeping the oversea trade of the country going in the presence of war perils. As a possible poacher on State funds the shipowner was gravely suspect; there was nothing for it but to make him into a game-keeper and to secure his services for the nation.

The basis of the scheme recommended by the Sub-Committee was the utilization of the machinery of the War Risk Mutual Insurance Associations which the shipowners had formed. The State was to enter into partnership with these associations, and the entered vessels were to be insured on joint account against war risks upon the following terms: *First*, voyages current when war became imminent were not to be stopped at the nearest safe ports; on the contrary, vessels were to be encouraged to continue trading, and the war risks incident to these voyages were to be borne as to 80 per cent. by the State and as to 20 per cent by the associations. For this insurance no premiums were to be charged by either the State or the associations, as the shipowners would be running at peace freights, and under the conditions of their bills of lading they would be under no obligation to complete the voyages in the face of war perils. *Secondly*, voyages started after the outbreak of war were to be insured by the associations at such rates of premium, to be paid by the shipowners, as the State might from time to time fix, and 80 per cent. of such risks were to be re-insured by the State at the same rates. *Thirdly*, standard forms of policies were to be adopted under which the right to the recovery of the insurance money would be made dependent on the vessel following the instructions of the Admiralty, and of the Committee of the association, as to routes, ports of call, and stoppages. *Fourthly*, the whole of the underwriting business, including the control of the movements of the insured ships, was to be managed by the

Committees of the associations upon which both the Admiralty and the Board of Trade were to be represented. Under these proposals the organization of the associations would be made responsible for the entire management of the Scheme, and their careful management would be assured, as they would be responsible for 20 per cent. of the amount by which the premiums proved insufficient to meet the claim. The rate of premium to be charged would be left entirely in the hands of the State, which therefore would be able either to guard itself against direct loss by keeping up the premiums, or to encourage oversea trade and to prevent the rise of freights and prices by keeping down the premiums.

The administration of the cargo insurance did not present so many difficulties, for whilst there were no organizations amongst the traders similar to the shipowners' associations, control over the movements of the insured cargoes would be secured by obtaining control over the movements of the ships. The Sub-Committee recommended that the premiums to be charged should be fixed by the State at a flat rate, and that at that rate all cargo carried on all insured vessels should be entitled to State Insurance against war perils, subject to the condition that it was also insured against all ordinary marine perils. And further that the values covered by the State should be the same as those insured against marine perils. The work of administration in regard to the cargo insurance was therefore more or less routine. There would be no fixing of rates, for that would be done by the State; there would be no selection of risks, for all cargo on all insured ships would be entitled as of right to the State Insurance; there would be no fixing of values, for those would be fixed by the marine policy. What would be wanted was an organization to issue, on application, policies in respect of cargo which complied with the above conditions, and to adjust claims as they arose with ordinary business dispatch; and the Sub-Committee advised that the State could with confidence rely on the help of the insurance market in providing and working such an organization. These were the recommendation of the Sub-Committee, and so that



their proposals, if accepted, might be carried into immediate operation should occasion arise, they worked out in detail the policies and other forms needed to carry them into effect.

The Sub-Committee's Report was signed on the 30th April 1914, but for weeks the chances appeared to be that nothing would be done towards bringing its proposals into operation. Indeed, as late as the Thursday before war was declared, the managers of the shipowners' associations were told that it was not proposed, at any rate for the present, to adopt the Report. It was perhaps fortunate that the men who had been working for the Scheme had by this time realized that nothing but dire national necessity would ever induce politicians to face the responsibility of acting on principles which had been debated and criticized from many standpoints for nearly a generation. That there was such hesitation was perhaps natural ; some at any rate of the critics were of business experience, and it was impossible to eliminate entirely the idea that the whole scheme was an attempt on the part of the shipowners to obtain, at the expense of the State, something for nothing. Accordingly, although on the Thursday before war was declared the chances of the Scheme being brought into immediate operation appeared remote, the work of preparation went steadily on, though under considerable difficulties, for the report of the Sub-Committee had still to be treated as a confidential document.

It was not until midnight on the Sunday before war was declared that the managers of the shipowners' associations were told that the Government was prepared to act on the Report of the Sub-Committee, and that they were at liberty to submit the proposals to their members. On Monday the 3rd August 1914 a *ship* based on the forms of policies scheduled to the Report was initialled on behalf of the Board of Trade, and on Tuesday the 4th August 1914 the Committees of the shipowners' associations adopted the scheme and issued a circular in which they said :

' The intention of the Scheme and the object of the Government in re-insuring the King's Enemy risks to the extent of 80 per cent. is to maintain the oversea trade of the country wherever it can reasonably

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be maintained. Of course, Members should act prudently, remembering that they are all partners the one with the other, and with the Government. The Association relies on every partner doing his best to minimize calls, but Members will at the same time recognize that their duty to the State is to keep their ships going wherever it is reasonably possible.'

On the 5th August 1914 the State Cargo Insurance Office was opened, the insurance market responding immediately to the Government's call for help, and provided the trained staff and the expert advice by which alone the work of that office could be carried on with success.

The Scheme, when it came into operation, had to be taken entirely on trust, for owing to the delay in publishing the Sub-Committee's Report, Parliament, the shipowners, and the cargo-owners had no opportunity of considering its provisions ; but the Government's action was approved by Parliament without debate on the 4th August 1914, and the work of years was accomplished.

## II. THE WORKING OF THE SCHEME

### (a) *The Insurance of Ships*

As the war progressed, the Scheme, both as regards hull and cargo insurance, was from time to time varied and extended ; but upon all essential points in regard to hull insurances it remained in operation in both substance and form up to the 20th August 1917. By that date almost the whole of the British Mercantile Marine had been taken over by the Government under requisition, or was being worked by the shipowners on account of the Government under the Liner Requisition Scheme. Under the charters used in both forms of requisition the Government assumed, in regard to hulls, direct responsibility for all war losses, and secured complete control over the voyages to be undertaken and the cargoes to be carried by the ships. Further, by the prohibition of the less essential imports, by control over prices, by rationing, by the fixing of freights, and by the regulation of foreign exchange, it had by August

1917 created trading conditions which had little, if any, relation to those which the Scheme was framed to meet. The Scheme was a commercial one: it provided insurance facilities to encourage the shipowners and the traders to run all reasonable business risks, in order that the nation's oversea trade might be maintained, and it assumed that what was reasonable would be judged from a commercial standpoint. It followed that under the Scheme national needs would only be brought into account in so far as they were reflected by the freights offered, and the prices the nation was prepared to pay for the imports it required, because on a commercial basis only those voyages would be attempted, and only those cargoes would be shipped, which showed reasonable prospects of proving profitable to the shipowners and the traders. Moreover, the Scheme assumed the existence of an effective command of the sea: not an absolute command, because it was recognized that that was an impossibility, but such a command as would assure a reasonable probability of the trading ship being able to complete its voyage. During the first six months of 1917 it became manifest that we had then no such command of the sea. The Admiralty had failed disastrously even to understand the perils to oversea trade from submarine warfare, and they had made hardly any provision to guard against them. The risks to which the ships and their cargoes were then exposed could be covered by no system of commercial insurance.

The first seven months of 1917 mark the transition period from commercial to State control of shipping and oversea trade. They further cover the period during which the Admiralty had, as regards under-water warfare, lost command of the sea around the coasts of the United Kingdom. The success or failure of the Scheme should therefore be judged from its working up to the end of 1916.

On the outbreak of the war, the State entered into partnership with three of the shipowners' war-risk insurance organizations: the North of England (which was the first of the shipowners' organizations to undertake that form of insurance); an organization known as the London Group, which repre-

sented six separate shipowners' associations ; and the Liverpool and London War Risks Insurance Association. These War Risk Clubs covered practically the whole of the British steamship tonnage employed in oversea trade.

The partnership agreement embodied the recommendations made by the Sub-Committee of the Imperial Defence Committee.

On all voyages current on the outbreak of the war each Club held all its members insured against King's enemy risks up to the values at which the vessels were entered, and the State, as re-insurers, covered the Club up to 80 per cent. of the liabilities they so assumed. This insurance and re-insurance was given without premium being charged, the loss as to 80 per cent. falling on the State, and being met as to the remaining 20 per cent. by calls on the members of the Club.

On all new voyages started after the outbreak of the war, the Club placed at the disposal of each of its members facilities for insurance against King's enemy risks up to values, and at premiums, approved by the State, and the State as re-insurers covered at the same rates of premium 80 per cent. of all such insurances as were effected with the Club. It was open to each individual member to use or not these facilities as he pleased. He was free to insure in the Open Market, or to run his vessel uninsured ; but in order to secure control over the movements of the ship, it was a condition of the insurance of cargo under the Scheme that the vessel carrying that cargo must be insured in one of the Clubs. At first it was sufficient to obtain cargo insurance if the ship were insured in a Club up to 30 per cent. of its entered value, but this was at a later date increased to 50 per cent. This condition in practice necessitated all vessels engaged in general trade being insured up to the required minimum with the Clubs.

Whether the member used the insurance facilities or not he remained liable to pay any calls the Club might have to make, if the Club's 20 per cent. of the losses exceeded the Club's 20 per cent. of the premiums, such liability being the condition of his membership, which carried with it the right to use the insurance facilities afforded by the Club.

The insurance values for the purposes of the partnership were limited to the first cost of the vessel, without allowances for the cost of alterations or additions, less depreciation at the rate of 4 per cent. per annum with a minimum value equal to 30s. a ton gross registered tonnage. The Scheme recommended by the Sub-Committee provided for the assured bringing into account, and in reduction of his claims under the Club policy, all sums he received in respect of any other insurances he held against King's enemy risks. Some of the ship-owners considered that this basis of valuation was far too low ; that in fact it was not sufficient to warrant their sending their ships to sea. To meet these objections the Government agreed to waive the condition as to the bringing of other insurances into account, provided in the opinion of the Committee of the Club the total amount insured against war risks under all policies on the ship was not unreasonable. Some of the Clubs thereupon started on their own account, and without any re-insurance by the State, the insurance of 'excess values' to an amount agreed between the Committee and the individual member, and in other cases the members effected excess value insurances in the Open Market.

As the market value of tonnage advanced, and as the cost of replacement increased, the Government agreed to the Clubs increasing the insurable values under the Scheme by 20 per cent. as from the 10th March 1915, and by 50 per cent. as from the 3rd January 1916, and further to the Clubs waiving the writing off of depreciation at the rate of 4 per cent. as from the 9th September 1914.

On the new voyages starting after the outbreak of war the Sub-Committee of the Imperial Defence Committee had advised that :

' It will in our opinion be necessary to have different rates of premium for different zones, and it may also be found advisable during the course of the War to change the rates for certain of these zones. But we are strongly of opinion that the different rates should be as few as possible, and also that the changes in these rates should be as infrequent as possible. It is admitted that the State is not undertaking the business with a view to making a profit out of it, but solely with the object of

preventing the interruption of our oversea commerce in time of war owing to inability to insure against war risks through the usual channels. The rates charged by the State must not, therefore, be so low as to compete with the rates that the insurance market may be willing to quote, nor must they be so high as to be prohibitive, or materially to affect the cost of the food or other merchandise being brought to or carried from these shores. At the same time it would be obviously unfair to the State's partners in this business—the individual ship-owners in the Clubs—that they should be called upon either to pay premiums out of all proportion to the risks of the voyage undertaken, or to bear their share of losses in respect of voyages insured at much too low a premium. It is for this reason that we recommend that the premiums charged should to some extent depend on the risk involved. But we should like to suggest that the maximum rate for any voyage should be 5 per cent., and the minimum rate 1 per cent.'

The declaration of war followed so soon after the adoption of the Scheme that there was no time even to attempt to assess different rates of premiums for different zones or different voyages. Even if there had been, it is very doubtful if any such differentiation would have been possible in view of the information then available as to the enemy's intentions and the forces at his disposal. Indeed, until the enemy's cruisers and raiders had been disposed of, the adoption of premiums based on zones graded in accordance with the risks existing therein, presented almost insuperable difficulties. In the circumstances the Government adopted on the outbreak of the war a flat rate of premium for all voyages, and this method was adhered to until the underwriting partnership with the Clubs came to an end in August 1917. As a voyage flat rate in the coasting and other short sea trades would have been prohibitive, the Government quoted a time rate to cover a period of 91 days, which was fixed at double the voyage rate, on the assumption that on the average vessels in the oversea trade would under war conditions make eight voyages in the year—that is four outward and four inward voyages—each occupying on the average 45 days.

The Sub-Committee had recommended the same maximum and minimum rates for both hull and cargo insurance. The risks were the same, but on the outbreak of the war the Government realized that the reaction of the premium would be far

more marked in the case of freights than on the selling price of the cargoes. The Sub-Committee had based their estimates of the liabilities the State would assume under the Scheme on the assumption that under pre-war conditions British steamships employed in the ocean oversea trade :

- (1) were of the average value of, Liner tonnage £10 per ton gross, and Tramp tonnage £4.50 per ton dead-weight carrying capacity ;
- (2) were earning gross per annum on the average, Liner tonnage £8 per ton gross, and Tramp tonnage £3 per ton dead-weight carrying capacity ;
- (3) were making on the average ten voyages in the year, that is, five outward and five inward voyages ;
- (4) were earning net per annum, on the average, before providing for depreciation, 10 per cent. on the value of the tonnage employed.

On these assumptions the average gross earnings, that is the freight charged, on each voyage represented under normal trading conditions in the Liner tonnage 8 per cent., and in the case of the Tramp tonnage 6.66 per cent. on the values of the ships employed ; whilst the net earnings per voyage on both classes of tonnage represented 1 per cent. on such values. If on each voyage there had to be added to the expenses of that voyage a war-risk premium at the rate of 5 per cent. on the value of the ship, it followed that the gross freights would have to be advanced in the case of the Liner tonnage by 62.50 per cent., and in the case of the Tramp tonnage by 75 per cent., if the shipowner were to be left with net earnings equal only to 1 per cent. per voyage on capital represented by the ship. In the same way war-risk premiums at the rate of only 1 per cent. would warrant an advance in gross freights amounting to 12.50 per cent. in the case of the Liners, and of 15 per cent. in the case of the Tramps. On the other hand, a war-risk premium of 5 per cent. on the value of the cargo would be within normal market fluctuations. In view of these considerations the Government, whilst fixing the premium on cargo insurance at

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5 per cent., which was the maximum suggested by the Sub-Committee, started with the premium of 25s. per cent. for the hull insurances.

The premiums charged on hull insurance during the existence of the partnership with the Clubs were as follows :

Period during which rate was in force	Single voyage per cent.	Round voyage per cent.	Time 91 days per cent.
4 Aug. 1914-12 Aug. 1914 . . .	s. d. 25 0	s. d. 50 0	s. d. Nil
13 Aug. 1914-31 Aug. 1914 . . .	25 0	50 0	50 0
1 Sept. 1914-16 Dec. 1914 . . .	20 0	40 0	40 0
17 Dec. 1914-19 Sept. 1916 . . .	15 0	30 0	30 0
20 Sept. 1916-18 Mar. 1917 . . .	20 0	40 0	40 0
19 Mar. 1917-22 Apr. 1917 . . .	30 0	60 0	60 0
23 Apr. 1917-19 Aug. 1917 . . .	50 0	100 0	100 0

Claims for damage to an insured vessel were payable as ascertained. Claims for a total loss were payable by equal instalments at six, nine, and twelve months from the date of loss, but such instalments carried interest from such date at the rate of 4 per cent. per annum.

In the event of a capture, a total loss was not payable in the event of the vessel being restored to its owner within 183 days, but the Club paid the cost of repairing any damage sustained by the vessel, the expenses incurred in respect of the capture and release, and a sum equal to 10 per cent. per annum on the insured value from the date of capture up to the date of release.

The administration of the Scheme in regard to the insurance of the vessels was left in the hands of the Clubs, and the whole of the cost of that administration was borne by them. Representatives of the Admiralty and of the Board of Trade were made members of the Committees of each of the Clubs; and under the partnership agreement the Government had, and exercised, the right to examine the books and documents of the Clubs relating to the original insurances and any losses and claims thereunder.



The Clubs charged and collected the premiums in full at the rates fixed by the Government, and issued their own policies insuring the whole 100 per cent. of the risks accepted. They then re-insured with the State 80 per cent. of the risks so accepted, and paid over to the Government 80 per cent. of the premiums they had collected.

Certain risks were, from time to time, excluded by the Government from insurance under the Scheme, as for example Baltic and Black Sea voyages throughout the war, and to certain Scandinavian ports at different periods during the war. The Clubs issued no policies in respect of these excluded voyages.

The underwriting business as between the Clubs and their individual members, and as between the Clubs and the Government as the re-insurers, was carried on in all respects in accordance with customary underwriting practice, except that the Government representatives on the Club Committee had the power to dissent to any settlement or decision of the Committee relating to :

- (1) The settlement of losses and claims attaching to the policy ;
- (2) Questions relating to cancellation and return of premiums, average deposits, salvage and refund, and generally upon all matters appertaining or incidental to the insurances.

If this power of dissent were exercised, then the point at issue was left to be determined as between the Club and the individual member concerned by the Law Courts, and the State as re-insurers was bound by the decision of the Court.

The organization of the Clubs was freely used to keep the shipowners and their captains in close and constant touch with the representatives of the Admiralty, and by this means routes were laid down and other methods were adopted to minimize risks. The Committee of the Club was in a position to enforce observance of the instructions it issued, as wilful disobedience imperilled the member's rights under the policy.

The administration of the Scheme in regard to the insurance of the vessels involved an immense amount of work, but it was performed by the Clubs and at their own cost.

(b) *The Insurance of Cargo*

For cargo insurance under the Scheme, the State opened an office in the City of London on the day following the declaration of war. It was an office attached to the Board of Trade, but it was largely staffed by expert clerks from the insurance market, and the Board of Trade appointed an Advisory Committee of experts in insurance practice and law to exercise a general supervision over the working of the Scheme and a general control over the Cargo Insurance Office.

The work to be undertaken by the Cargo Insurance Office was limited and defined by the Scheme as follows :

(1) Cargo afloat at the time of the outbreak of the war was not insurable.

(2) All cargo, irrespective of the nationality of the owner of such cargo (except enemy cargo), carried on a vessel which was insured under the Scheme, on a voyage started after the outbreak of war, was insurable, provided it was insured under marine policies.

(3) The risks to be covered were King's enemy risks.

(4) The rate of premiums was to be the flat rate, fixed, from time to time, by the State. A rate agreed for a specific voyage held good, provided the cargo started on such voyage within fourteen days ; but if the voyage were delayed under the orders of the Admiralty, the assured had the option of cancelling the policy and receiving back the premium paid. If the voyage were not started within the fourteen days, then the rate current at the time of the start was payable.

(5) The values to be covered were those agreed in the marine insurance policies covering the same cargo.

(6) The marine insurance policies must have been issued by members of Lloyd's, British Insurance Companies, or other approved insurance companies and underwriters.

(7) Claims were to be settled on the basis of the marine insurance policies, but such last-mentioned policies were deemed to contain such standard clauses as might be approved by the State in regard to the particular class of cargo insured.

(8) Claims were to be settled by the Advisory Committee, but in the event of dispute with the assured, the liability of the State was to be determined by the Law Courts.

(9) Claims as agreed were to be settled at once in cash.

In concentrating the work in a single office in London, the Board of Trade acted on the Report of the Sub-Committee of the Imperial Defence Committee. During the war strong representations were made from time to time as to the advisability of opening offices in Liverpool, Glasgow, Manchester, Cardiff, and other ports, but the one office proved capable of discharging the work imposed upon it, and there were many advantages in having it in constant and immediate touch with the Board of Trade and Admiralty.

In excluding from the Scheme cargo afloat at the time of the outbreak of the war, the Board of Trade also acted on the Report of the Sub-Committee, which, speaking in times of peace, had pointed out that :

‘The main inducement to a cargo-owner to insure these risks (war risks) at present is the fear that, if war becomes imminent or breaks out, he may not be able to effect his insurance at all. If you give him the certainty of being able to cover this insurance, he may consider it unnecessary to continue to insure in the market. He will be saving premiums on a very large number of transactions, and will not much mind what premiums he has to pay on the few shipments or cargoes he may have afloat when war breaks out, as long as he knows for certain that, at a price, he can cover these risks.’

The Sub-Committee had had impressed on them during the course of their investigations that if cargo already afloat were to be covered on the outbreak of war, the Open Market would regard the Scheme as depriving it of business which it was well able to handle; and in making their recommendation in favour of the exclusion of such cargo the Sub-Committee was without doubt influenced by the desire to secure the support of the Open Market to the Scheme generally.

When war came it was found that the Open Market was entirely unable to deal with the cargoes then afloat. Only a small proportion were insured against war risks, the market was timid and narrow, and such rates as were quoted were prohibitive. To have refused insurance under the Scheme to these cargoes would have been disastrous to the maintenance of international credit, and accordingly the Board of Trade sanctioned the insurance under the Scheme of the cargoes that were afloat on the outbreak of the war.

The determination of the partnership between the State and the War Risk Insurance Clubs did not bring the work of the Cargo Insurance Office to an end. The movement of the ships remained under the control of the State, although the cargo-owners and their underwriters had lost the protection that had resulted from the shipowner working in his own self-interest to avoid the loss of his ship. Accordingly, the Cargo Insurance Office continued in full operation until the end of the war.

The Sub-Committee of the Imperial Defence Committee were clear that in regard to the insurance of cargo the State should only assume responsibility when and so far as the insurance market was no longer prepared to accept war risks at reasonable rates. But they recognized that :

‘ It is possible that under this arrangement the State will get all the bad risks and the market all the good ones, when once the market is again working. This is quite true, but then we recognize that the main object of the State will not be to compete with the insurance market, but only to secure the continuance of the voyages after the outbreak of war, which might be arrested owing to inability to cover insurance against King’s Enemies. It will not mind, therefore, if it does a little business in war risks so long as these risks are being covered elsewhere.’

In expressing this opinion the Sub-Committee was dealing in particular with their proposal that all cargo should be insured at a flat rate, but experience during the war showed that if the insurance market is in competition with the State on the basis of either a flat rate or a differential rate calculated on the risks incident to the insured voyage, the State gets an

undue proportion of the bad risks, and the market an undue proportion of the good ones. This result arises from the fact that it is of the essence of the Scheme that the State shall accept, at the current rate, every and all the insurances offered, whatever may be the risk at the moment, and whatever may be the values at stake in the single bottom. The State cannot, like the underwriter, refuse business until the risks on a particular route have been ascertained, or the policy of the enemy as to his methods of attack have been made manifest. It is not possible for the State, if the object of the Scheme is to be attained, to act on the cardinal principle of the underwriter, i. e. to average his risks by working on a maximum line or liability in respect of any one bottom. It is true that the State under the Scheme has power to vary the rates to meet variations in the risks, but in fixing its rates it is bound to act on more general lines than the individual underwriter, and there are obvious objections to the State indicating precisely, in voyage rates calculated on the Government's confidential data of sailings and losses, its views as to the perils on particular routes.

This selection of risks as against the State greatly increased the difficulty of determining a flat-rate premium sufficient, but not more than sufficient, to cover probable losses. The higher the rate was fixed the more active was the competition of the Open Market for the better risks, whilst the more these risks were assumed by the Open Market the greater was the need to advance the rate in order to cover the more hazardous ones.

Up to the end of February 1918, the Cargo Insurance Office, acting under the advice of its Advisory Committee, adhered to the principle laid down by the Sub-Committee in regard to working on a flat-rate premium and the State not competing with the Open Market, with the result that whilst the State made substantial losses, the Open Market made very substantial profits out of cargo insurance. In view of these difficulties the Government had brought forward proposals in the Summer of 1917, which, if accepted, would have conferred on the State

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a monopoly of cargo war-risk insurances in this country. These proposals were opposed by many of the underwriters, mainly on the ground that such a monopoly could not exclude from the business their oversea competitors, or even their own agencies operating in foreign countries. In face of this opposition the Government decided to abandon the idea of a monopoly, and also the flat rate of premium. The Scheme was therefore revised and differential voyage rates were adopted, which were calculated by the experts on the Advisory Committee, on the information at the Government's disposal, so as to leave, as far as possible, neither profit nor loss. Further, the risks insured against were widened, so as to include all the risks usually covered by the Open Market under a war risk policy, and the values insurable were increased to cover increased value or profit up to the actual value of the cargo at the time when the insurance was effected. The revised Scheme was brought into operation on the 6th March 1918, and under it the Cargo Insurance Office was placed in a stronger position to compete with the Open Market, and thereby to secure a better distribution of the cargo risks placed with it.

The premiums charged by the Cargo Insurance Office were as follows :

Period during which rate was in force	Rate per cent.		
	£	s.	d.
5 Aug. 1914– 7 Aug. 1914	5	5	0
8 Aug. 1914–16 Aug. 1914	4	4	0
16 Aug. 1914–31 Aug. 1914	3	3	0
1 Sept. 1914–10 Dec. 1914	2	2	0
11 Dec. 1914–30 Dec. 1914	1	11	6
31 Dec. 1914– 1 Jan. 1917	1	1	0
2 Jan. 1917–14 Mar. 1917	2	2	0
15 Mar. 1917–22 Apr. 1917	3	3	0
23 Apr. 1917– 5 Mar. 1918	5	5	0
6 Mar. 1918 onwards	Differential rates.		

The Sub-Committee of the Imperial Defence Committee had advised that the State should adopt the practice of the Open Market in allowing the broker through whom the insurance was effected, a brokerage of 5 per cent. on the premiums. This suggestion was acted on, the premiums being quoted in guineas

and the broker receiving the shillings as his remuneration. When the premiums were advanced in April 1917 it was agreed that this allowance for brokerage should be reduced to  $2\frac{1}{2}$  per cent., and it remained at that figure to the end of the war.

The differential rates quoted from March 1918 ranged, at the start, from 5s. up to 140s. per cent., according to the voyage undertaken, and they were varied from time to time to meet the altering conditions on the different routes.

From first to last the premiums accepted by the Cargo Insurance Office averaged 2.75 per cent. on the amount of the values it insured.

As in the case of the hull insurances, the administration of the Scheme in regard to the insurance of cargo involved an immense amount of work, but with the expert and clerical help provided by the Open Market, and that of the brokers through whom the risks were placed, it was carried on with great promptness and in accordance with customary underwriting practice.

#### *(c) Seamen's War Risk Compensation Scheme*

The Sub-Committee of the Imperial Defence Committee had recognized that insurance might not be sufficient to keep ships running, if their crews were exposed to very serious danger of capture, imprisonment, and loss of life. As regards the risk of imprisonment, they attached importance to the protection afforded under the Hague Convention of 1907 'relative to certain restrictions on the exercise of the rights of capture in maritime war', and they did not contemplate the possibility of an enemy deliberately resorting to the destruction of merchant shipping without regard to the safety of the crews.

From the outbreak of the war it was manifest that Germany intended to disregard not only the Hague Convention, but also all the rules of warfare which had been established by the usage of generations for the protection of the crews of trading vessels. Germany seized and imprisoned the crews of the British Trading ships found in German ports, and, from

the day of the declaration of war, sowed mines broadcast in the high seas. On the 20th October 1914 the first British trading ships were sent to the bottom by a German submarine. Before the war Germany had deliberately resolved on the policy of sinking at sight trading vessels, without the slightest regard to the safety of those on board; and the only considerations that ever influenced the enforcement of that policy to the utmost were its probable reaction on neutrals, and in particular on the United States, and the lack of a sufficient number of submarines to make the campaign really effective.

As the need arose to provide for the families of the seamen who had been seized in enemy ports, an arrangement was entered into between the State and the Shipowners' War Risk Insurance Clubs, under which allowances were granted and provided out of the premiums charged the shipowners for the insurance of their vessels.

In regard to claims resulting from loss of life or personal injury to members of the crew of a vessel that continued in employment, some doubt at first arose as to whether such claims, if resulting from enemy action, came under the protection of the Workmen's Compensation Act. The shipowners generally regarded them as so covered, but a County Court Judge held that a loss of life caused by a floating mine was not within the Act. This decision was reversed on appeal; but whilst it stood, an arrangement was entered into between the State and the War Risk Clubs covering also these cases out of the premiums charged for the insurance of the hulls. Ultimately, in February 1916, the Government decided that in the event of a master, officer, or seaman of a British merchant ship being killed or injured through war risks, compensation should be paid in accordance with the Admiralty Scale for Fleet Auxiliaries. This arrangement was not to relieve the shipowners from their responsibility under the Workmen's Compensation Act, but all compensation payable under that Act was to be deducted from the grants payable under the Admiralty Scale.

The administration of a Compensation Scheme on this basis presented many difficulties. The value of the compensation



payable under the Admiralty Scale was substantially above that payable under the Act, but it was payable in a different form. Under the Admiralty Scale only periodical pensions and allowances were payable, whilst under the Act a lump sum is payable to the dependants of a deceased man, and periodical allowances are payable to an injured man. Under the Admiralty Scale the Admiralty are the sole judges as to the degree of dependency and the degree of incapacity, whilst under the Act a County Court Judge is the sole judge. Further, under the Act the lump sum payable in respect of a death is paid into Court, and is applied as the County Court Judge thinks best in the interests of the dependants.

The difficulty of amalgamating the Admiralty Scale with the Compensation Act was increased in the case of the merchant ships requisitioned by the State, because in those cases the State assumed responsibility under the Act, if, but only if, the injuries were caused by the action of the King's enemies.

After the Government announcement had been made, the seamen and their dependants looked for the Admiralty Scale as of right, and it was impracticable to insist that they should first exhaust their rights, if any, against the shipowner under the Act. On the other hand, it was only the seamen or his dependants who could substantiate their claim against the shipowner, as such claims are not capable of assignment.

The only way out of all these difficulties was to place the administration of the compensation payable under both the Act and the Admiralty Scale in one hand, and to provide for its payment out of a common fund. Accordingly, in March 1915, arrangements were entered into between the Government and the War Risk Clubs, under which the latter acting on behalf of the State and the shipowner, and under the supervision of the Board of Trade, assessed and paid the compensation payable under both the Act and the Admiralty Scale in respect of all injuries caused by the acts of the King's enemies. All sums so paid were (1) charged upon the premium income of the Clubs as if they were a King's enemy losses on hull; (2) if the ship were at the time of the casualty at the risk of the

Admiralty as to war perils, then the payments were charged only against the re-insurance premiums receivable by the Government; but (3) in the case of all other ships the payments were charged against both the original and re-insurance premiums.

The result was that the whole of the compensation payable in respect of all the ships entered in the Clubs, whether trading or requisitioned, was provided out of the premiums charged for hull insurance; whilst in the case of the trading ships, if the premiums proved insufficient to cover the payments, then 20 per cent. of the deficiency had to be made good by a call on the members of the Club.

This Scheme, when adopted, was dated back to the day upon which war was declared, and the scale of pensions and allowances was revised and increased from time to time, as the Admiralty Scale was improved.

At the end of the war the administration of the Scheme was taken over by the Board of Trade, the War Risk Clubs paying 20 per cent. of the capitalized value of the pensions and allowances then current, which had been awarded in respect of seamen serving on the trading, but not on the requisitioned, ships.

There were a number of claims arising in connexion with vessels which were not entered in any of the Clubs, such as the smaller ships in the coasting trade, pilot boats, &c. The Admiralty Scale was applied in these cases; but the ship-owner was, as far as practicable, held to his responsibilities under the Workmen's Compensation Act. All of these outside cases were, at the request of the Board of Trade, administered during the war by one of the War Risk Clubs on behalf of the State.

There were in all about 10,000 cases dealt with under the Scheme, the claim of a mother and children being for this purpose taken as one case. In respect of these cases there was paid under the Workmen's Compensation Act about £1,250,000, and there were granted pensions and allowances of the capital value of about £7,000,000.

Throughout the war both the working and the cost of administering the Scheme was borne by the War Risk Clubs, and a Select Committee on Pensions reported to Parliament in August 1920 that their administration had been most efficiently and sympathetically conducted.

### III. THE CHARGE IMPOSED ON THE NATION BY STATE INSURANCE AGAINST WAR RISKS AT SEA

COMPLETE figures showing the working of the insurance of the ships under the Scheme during the continuance of the partnership between the State and the Shipowners' War Risk Insurance Clubs have not been published, but in the following table is given a comparison published by one of the Clubs, showing as percentages on the values of the ships insured under the Scheme, the average rate of the premiums earned at the rates fixed by the State, and of the losses incurred on the risks that had run off during such partnership. The vessels entered in the Club in question represented about one-third of the total number, and about one-half of the total values, insurable under the Scheme, and the percentages are calculated on policies, including the policies issued on the repeated voyages of the entered ships, for £848,000,000. The comparison is made in six monthly periods.

#### SHIPS

Period	As percentages on amount insured on risks run off	
	Premiums earned	Losses
6 months Aug. 1914-Feb. 1915 . .	1.40	0.58
„ Feb. 1915-Aug. 1915 . .	1.06	1.80
„ Aug. 1915-Feb. 1916 . .	1.08	1.32
„ Feb. 1916-Aug. 1916 . .	1.10	0.67
„ Aug. 1916-Feb. 1917 . .	1.27	2.45
„ Feb. 1917-Aug. 1917 . .	3.23	6.76
36 months Aug. 1914-Aug. 1917 . .	1.71	2.78

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From October 1916 until August 1917, the premium rates were not advanced by the Government to keep pace with the then greatly increased ratio of loss. The advances were delayed, and when made, minimized, so as to avoid lending colour to any panic feeling that might arise over the development of the enemy campaign of unrestricted submarine warfare. Further, the Admiralty was slow to realize that it had failed lamentably to make provision against such campaign, and was month by month losing that general command over the sea the possession of which was essential to the administration of the Scheme on underwriting principles.

In the result, the partnership between the State and the Club in question showed a loss on the underwriting account up to August 1917 of £7,400,000, of which the State bore £5,900,000 and the Club £1,500,000. These liabilities included the capital value of the responsibilities assumed under the Seamen's War Risk Compensation Scheme. The ratio of loss in the Club whose figures have been published were probably below the general average, as in that Club were entered most of the faster vessels. On the other hand, the average value it had at risk in a single bottom was very much above the general average, and its losses included vessels of exceptional value. Taking into account these considerations, it is probable that the loss on the underwriting account between the State and all the Clubs, including the loss already referred to, did not exceed £18,500,000, of which the State bore £14,800,000 and the Clubs £3,700,000.

After the termination of the underwriting partnership with the Clubs, the State continued to use their machinery for the purpose of insuring its liability to the owners of the vessels taken up under the Liner Requisition Scheme, and providing facilities for the insurance of the limited number of free vessels that were neither under direct requisition nor employed under that Scheme. By this new arrangement the State re-insured the whole 100 per cent. of the risks accepted by the Clubs, and received the whole 100 per cent. of the premiums received by them. These premiums were fixed by the State, and varied from time to time in relation to the risks on different routes,

but in regard to the bulk of the vessels insured, that is the vessels running under the Liner Requisition Scheme, the premiums were paid out of the earnings of the ships—that is by the State itself. The State saw fit to maintain the premiums under this new arrangement at a high level, and in the result its underwriting account showed a profit which was sufficient to clear off the whole of its losses under the partnership underwriting account, and to leave a clear surplus of nearly £16,000,000. The results attained in regard to the insurance of hulls after August 1917 have in fact no bearing on the working of the original scheme, or any scheme based on underwriting principles. It was only the machinery of the Clubs that was used, and practically the whole of the premiums charged, and losses paid under the new arrangement, came out of the earnings of the ships which were being run on account of the State.

The charge imposed on the nation by State Insurance against War Risks under the original scheme amounted, therefore, to about £15,000,000, and practically the whole of that loss arose between October 1916 and August 1917. The flat rate fixed under the Scheme had covered the losses sustained during the first two years of war. In the third year the Government, on political grounds, purposely refrained from advancing the rate to keep pace with the then greatly increasing ratio of loss. The direct charge of £15,000,000 was therefore in no way inherent to the Scheme, or the adoption of a flat-rate system of premium.

Under the Cargo Insurance Scheme there were insured, from first to last, cargoes of the value of £2,177,000,000.

The premiums received amounted to £60,000,000.

The losses paid amounted to £65,000,000.

The following table shows, as percentages on the values insured, the average rate of the premiums earned, and of the losses incurred, on the risks underwritten by the Cargo Insurance Office during the war. The comparison is made in six monthly periods.

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### CARGO

Period	As percentages on amount insured on risks run off	
	Premiums earned	Losses
6 months Aug. 1914–Feb. 1915 . .	2.26	1.04
„ Feb. 1915–Aug. 1915 . .	1.00	0.72
„ Aug. 1915–Feb. 1916 . .	1.00	0.89
„ Feb. 1916–Aug. 1916 . .	1.00	0.74
„ Aug. 1916–Feb. 1917 . .	1.30	1.87
„ Feb. 1917–Aug. 1917 . .	3.61	5.98
„ Aug. 1917–Feb. 1918 . .	5.12	3.27
„ Feb. 1918–Nov. 1918 . .	3.89	3.76

The average rate of premium on the whole period of war was 2.75 per cent., and the loss ratio was 3 per cent.

The actual direct charge incident to the Scheme incurred by the nation was £5,000,000, which represented 0.25 per cent. on the value of the cargoes insured.

Here again it was only between August 1916 and August 1917, that is, whilst the State was keeping down the premiums for political reasons, that the loss on the underwriting account was incurred, and therefore this charge of £5,000,000 was also in no way inherent to the Scheme.

The Cargo Insurance Office insured about 27 per cent. of the total value of the cargoes carried on British ships during the war. The balance of the value, about £5,800,000,000, was insured in the Open Market, and the loss ratio was probably well under 3 per cent.

## IV. THE EFFECT OF THE SCHEME ON THE NATION

THE object of the Scheme was the maintenance of the nation's overseas commerce in time of war. The nature and extent of the losses that would be inflicted on such commerce in naval warfare under modern conditions were unknown, and from a business point of view immeasurable. The necessity

for maintaining international credit, which had become essential in the transportation of such commerce, was obvious. The dependency of the nation on such commerce for its existence was equally manifest. Insurance could neither protect against destruction, nor make good the ships and cargoes actually destroyed; but it could make the continuance of commerce possible by safeguarding individual enterprise against the risk of overwhelming loss through war perils.

There were other factors affecting the maintenance of commerce which were brought into operation by the war; the restrictions placed by war occupations on the producing power of the nation, the closing of markets, the withdrawal of ship-carrying power for war purposes, and the chances of the enemy establishing an effective blockade of our ports. An insurance scheme, by facilitating business enterprise and maintaining international credit, could help most materially in the maintenance of the nation's manufacturing power, and in the finding of new markets to take the place of those closed by the war, but it could do nothing to make good the loss of carrying power resulting from the withdrawal of ships for war services. It could do nothing towards securing and maintaining the command of the seas: indeed, there was a risk of its obscuring the vital necessity of such command being secured and maintained.

All of these factors must be borne in mind in weighing what was the effect of the Scheme on the nation.

(a) *The benefits derived under the Scheme*

When war was declared, the insurance market, as was anticipated, proved totally unable to provide the protection required by commerce, although under the Scheme it had been relieved of the insurance of the ships against war perils. It was timid and narrow. It opened with the quotation of voyage rates for eastern and Australian business of from 15 to 20 guineas per cent. It was entirely unable to provide insurance for the cargoes then at sea.

The opening of the State Cargo Insurance Office, and the quotation of the State rate of 5 guineas per cent. for all voyages

had a steadying effect, and as the ships were kept running, and a big proportion of the voyages were completed without loss, the market gained courage, but it remained very *nervy*. The activities of the *Emden* drove insurance wholesale into the State Office, and the news of her destruction brought underwriters back into the market; and so it went on, as the need for insurance increased, so the facilities offered by the market contracted. If commerce had been left in the hands of the market, it would have been embarrassed and checked at every turn. A steady insurance market was essential in all forward contracts. Credit was essential in the carrying out of all transportation, and that could only be obtained on security, and without war-risk insurance security could not be provided.

Even with credit available, the position was one of extraordinary difficulty. The sources from which we had obtained from the continent of Europe nearly 20 per cent. of our imports were closed, and we were left almost entirely dependent on the supplies which could only be brought in by the larger vessels on ocean voyages. On the declaration of war, nearly 20 per cent. of the British ocean-going steamship tonnage was taken up for war purposes, and the tonnage so employed went on increasing until the proportion reached 25 per cent. The war created conditions on the sea and in the ports under which voyages were protracted, and the time spent in port was lengthened, with the result that at least five ships were needed to do the work that had been done by four under peace conditions.

Notwithstanding these difficulties, the number of the voyages made by the ships employed in trade, and the volume of the imports brought into this country were maintained in the first years of the war in a remarkable manner. The tonnage entrances in British ports show the volume of shipping employed, but in regard to the cargoes carried, comparisons of money values are misleading. The following figures, showing the tonnage of the ships and the weight of the cargoes, are based on the Board of Trade returns.



COMPARISON SHOWING, IN PEACE AND WAR, THE EMPLOYMENT OF BRITISH AND FOREIGN STEAMSHIPS IN THE OCEAN OVERSEA TRADE OF THE UNITED KINGDOM AS RECORDED BY THEIR TONNAGE ENTRANCES, INCLUDING REPEATED ENTRANCES DURING THE SAME YEAR, AND THE WEIGHT OF THE CARGOES IMPORTED INTO THE UNITED KINGDOM

Period	<i>Shipping Entrances.</i> Tons net: hundred thousands, 00,000 omitted			Total imports, Tons weight: hundred thousands, 00,000 omitted
	British	Foreign	Total	
Year ended 31st July 1914	26,2	11,8	38,0	56,3
" " 1915	22,4	9,3	31,7	48,7
" " 1916	19,2	9,4	28,6	47,6
" " 1917	18,0	6,0	24,0	38,9
" " 1918	17,2	3,0	20,2	35,5

Amongst these imports the manner in which the weight of the food, drink, and tobacco imports were maintained was during the first years of the war most noteworthy, the figures being as under :

					Tons weight
Year ended 31st July 1914	.	.	.	.	16,200,000
" " 1915	.	.	.	.	16,200,000
" " 1916	.	.	.	.	15,600,000
" " 1917	.	.	.	.	14,300,000
" " 1918	.	.	.	.	10,800,000

The wheat imports alone were as under :

					Cwt.
Year ended 31st July 1914	.	.	.	.	111,000,000
" " 1915	.	.	.	.	109,500,000
" " 1916	.	.	.	.	112,000,000
" " 1917	.	.	.	.	116,500,000
" " 1918	.	.	.	.	72,000,000

although in the autumn of 1914 we had lost through the war the whole of our Black Sea and Baltic supplies, and through drought the whole of our Australian supplies, from which sources we had obtained in the previous year 20 per cent. of our total oversea supplies of wheat. In the harvest of 1915 we were still

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without our Black Sea and Baltic supplies, and the shortage of shipping tonnage made it impossible, from a business point of view, to send ships for the Australian harvest.

Freights were forced up by competition between consumers all over the world, as the ship-carrying power remaining available after the war demands had been satisfied became insufficient to carry all the cargoes offering. But from first to last the advance in freights had no important bearing on the cost of the principal articles of food in this country; on wheat the advance averaged about one penny on the quartern loaf, on meat it averaged one halfpenny in the lb., and on other provisions it averaged less than one penny in the lb.

The increase in the average import food values over those of the twelve months ended 31st July 1914 is shown in the following table, in pence.

	In the six months ended :				
	31 Jan. 1915	31 July 1915	31 Jan. 1916	31 July 1916	31 Jan. 1917
Wheat—Increase in pence on the amount used in the quartern loaf . . . . .	0·7	2·6	2·0	2·6	3·7
Meat, chilled—Increase in pence per lb. . . . .	1·6	2·2	2·8	3·5	4·1
Frozen—do. . . . .	1·9	2·5	2·9	3·0	3·0
Mutton, frozen—do. . . . .	0·9	1·9	2·6	3·4	4·2
Bacon—do. . . . .	0·6	0·5	1·6	1·9	3·3
Cheese—do. . . . .	0·7	2·4	1·8	3·6	4·6
Butter—do. . . . .	1·6	2·3	2·9	5·0	8·7
Tea—do. . . . .	0·2	1·9	1·5	2·4	2·3
Sugar, refined—do. . . . .	1·1	1·1	1·4	1·8	2·2
Sugar, unrefined—do. . . . .	1·1	1·1	0·9	1·2	1·4
Eggs, per dozen—do. . . . .	3·6	1·9	5·3	3·2	2·3

Up to the end of 1916 the Government of the day trusted in the main to commercial enterprise to both ascertain and supply the needs of the nation.

It is interesting to compare what actually happened during the first years of the war as shown by the foregoing tables with

the forecasts given by the witnesses examined before the Royal Commission in 1905.

Admiral Sir John Hopkins on behalf of the Admiralty expressed belief in the continuance of our oversea supplies, but with the qualification that, in his view, the cost of freight and insurance, and consequently prices, would be 'tremendously driven up', and he thought this condition of things might last for as long as six months, and that the Navy would be able to do nothing to prevent it. The opinion of the corn trade was that wheat, and consequently bread, would be at famine prices; and Mr. Broomhall, the editor of the *Corn Trade Year Book*, thought that prices might go up to 200s. per quarter if the war should coincide with a failure from other causes of one of our big sources of supply. Representatives of labour feared that the distress resulting from the rise in the price of bread would be so great as to cause serious riots, or, at least, to bring pressure to bear on the Government to make peace at any price. Manufacturers pointed to the effect which the enhancement of the cost of raw material and of placing our exports on foreign markets must have in curtailing trade, diminishing employment, and impairing the purchasing power of the working classes. Underwriters estimated the cost of insurance against war risks in the open market at rates up to 20 per cent. *per voyage*. And shipowners and merchants were clear that without adequate insurance facilities there must be grave risk of complete disorganization of our oversea trade.

The war was far more severe than that contemplated by the Royal Commission. It was with the strongest naval power we could have been called upon to encounter, and it was fought by the enemy with the determination to stop at nothing which could interfere with our oversea trade. The Royal Commission did not attach too much importance to the protection afforded by the customs of war, or even by international law, but they could not have foreseen that a great naval power would deliberately adopt a sea policy of murder and piracy. The Royal Commission certainly did not foresee the prodigious demands made on our merchant ships for transport services

in a war in which those ships formed the base from which our armies were fighting in Flanders, on the Dardanelles, in Africa, and in Mesopotamia. Nor did they foresee that our armies would be counted by millions, nor the part we should have to play in helping to feed, arm, and equip our allies. Every circumstance of the war tended to intensify the difficulties incident to the maintenance of our oversea supplies, and yet none of the evils dreaded by the witnesses examined by the Royal Commission were realized.

On the outbreak of war there were undoubtedly the elements out of which panics are made. In the month of August our stores of imported food are always at the lowest, and it was not only timid old ladies who started to lay in stores of food. The Prince of Wales's Fund was formed to relieve not only the families of our soldiers and sailors, but also the widespread industrial distress which was believed by many to be inevitable.

No provision had been made, and it is probable that none could have been made beforehand, to maintain on the outbreak of war the continuance of international trade credit, and in consequence for days the foreign business of the City of London, with all its resources, was paralysed.

In finding a way out of these difficulties the services of the Royal Navy were of inestimable value, for without its protection both at home and abroad our position would have been hopeless; and the officers and men of the Mercantile Marine did their duty manfully in the face of an organized system of piracy which would have disgraced the most bloodthirsty ruffian who ever sailed out of Algiers. But neither the men of the Royal Navy nor those of the Mercantile Marine were able to prevent losses which, although in comparison with the volume of our oversea trade as a whole were insignificant, would in themselves have been disastrous to the individual owners of the ships and cargoes if uninsured. To carry on the trade confronted by such losses without insurance would have been a gamble in which the great majority of our traders and ship-owners could not have engaged, even if such a trade could have

been financed through any of the established channels of international exchange.

The views held in 1905 may have been exaggerated, but it is not too much to claim that without the protection of the State Insurance Scheme our overseas trade would have been paralysed for weeks, if not for months. Nor is it too much to say that if the flow of that trade had been interrupted, international credit would have been shattered, and not merely suspended for a few weeks. If this may be claimed, it is clear that the State Insurance against War Risks served the purpose for which it was devised.

(b) *The Dangers Incident to the Scheme*

The success with which overseas commerce was maintained as from the outbreak of the war reacted with marked effect on the nation. It was the foundation of the 'business as usual' policy; it created a belief that it would be possible to maintain under war conditions peace standard of comfort; and it encouraged the markets that served the consumers to bid one against the other for the ship-carrying power available in their efforts to bring into this country all its accustomed supplies of both necessities and luxuries. The result was that it took a long time before the nation realized that not only was it bound to pay the world's war prices for its overseas supplies, but also that the volume of those supplies was limited by the maximum possible carrying power of the ships available.

So long as the nation was content to rely on commercial enterprise to satisfy its needs, the supplies that were brought in were those in respect of which the highest freights were offered, and the people to get those supplies were those who were prepared to pay the highest prices. It followed that if the workers were to be able to purchase in competition their daily bread, wages must be advanced in proportion to the increase in its cost; and therefore the 'business as usual' policy led to advance after advance in wages and their reaction in the form of further advances in prices.

The only alternative was the policy ultimately adopted

under which the State undertook the purchasing and bringing in of the essential imports and their distribution by means of fixed rations amongst the consumers, and in so far as the introduction of that policy was delayed by reason of the confidence inspired by the apparent ease with which commerce adapted itself to war conditions, the War Risk Insurance Scheme in great measure is responsible for the debt that was piled up by the nation in the vain attempt to maintain a peace standard of living.

The confidence inspired by the Scheme also reacted disastrously on the Admiralty. Before the end of 1914 it had been made manifest that the U-Boat was to be the chief weapon of the enemy in his attack on this country's oversea supplies, and that he was prepared to sink unarmed as well as armed British merchant ships regardless of the usages of war, and without any concern as to the safety of those on board. Every act of the enemy emphasized the points that Germany was maintaining the right to resort, whenever it pleased, to an unrestricted submarine campaign as an answer to the blockade established by this country, and that the only factors that counted in determining the opening of that campaign were (1) its probable reaction on neutrals, and in particular on the United States, and (2) the possession of a sufficient number of submarines to make the campaign really effective. The peril was manifest from the beginning of February 1915, but beyond providing for the patrolling of the inshore lanes of traffic, and arming about one-fourth of the merchant ships, nothing had been foreseen, nothing had been provided for, when two years later the enemy opened his campaign of sinking at sight all vessels trading with this country. The Admiralty had not even taken the trouble to master the first elements of the problem—the number of sailings to be protected. The result was that we started our anti-submarine work twenty-four months late, and thereby we nearly lost the war.

There are strong grounds for the belief that this delay resulted, in great measure, from the feeling of security created in the minds of both the Admiralty and the country by the

War Risk Insurance Scheme. As has already been pointed out, it was false security, as the cash payments made under the Scheme could never take the place of the naval protection which alone could guarantee the arrival of oversea supplies; but the immediate and extraordinary success with which the Scheme worked obscured the real nature of the peril with which the country was confronted from the beginning of February 1915.

Both the Scheme from the financial point of view, and the steps taken by the Admiralty from the point of view of protection, were based on the perils of cruiser warfare. Neither the promoters of the Scheme nor the Admiralty had before the war any conception of the risks incident to submarine warfare. So long as the enemy was hampered in that warfare by political considerations the losses could be borne financially by the Scheme, and the necessary volume of supplies could be brought in; but when once the enemy ceased to be restrained by the fear of the neutral States, the Admiralty's system of protection became ridiculously inadequate, and therefore the Scheme became unworkable.





# FIRE INSURANCE DURING THE WAR

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## FIRE INSURANCE DURING THE WAR

As a preliminary to a survey of the influence of the war on the business of Fire insurance some statement of the general principles and methods which prevailed before the war is required, because a knowledge of these is essential to a full understanding of the modifications which were brought about by that upheaval.

Introduction (explanatory).

To secure a clear understanding it is desirable at the outset to define the terms to be used: 'The Insurer' is the person or body of persons which agrees to indemnify some other person or body of persons (called the 'Insured') against loss or damage. The meaning of the word 'Underwriter' is similar to that of 'Insurer', but it implies in addition another function, namely the selection and rating of the risk undertaken by the Insurer. The term 'Insurer' is often applied to the person insured, and much confusion results.

A policy of Fire insurance is not the simple contract which its name would seem to indicate; for one thing it does not indemnify the insured for damage resulting from every kind of fire. For many years it has been the settled practice of insurers to limit their responsibility to the consequences of fires originating from certain causes, in order to avoid the possibility (however remote) of being involved in a loss too great for their resources. The principle on which a Fire underwriter relies is that it is possible to estimate with reasonable accuracy the extreme limit of liability likely to be reached in any particular fire arising from what may be described as natural causes—that is, from accident, negligence or even malice, so long as that malice is not accompanied by force. Acting on that principle the aim of an underwriter is to limit his liability upon each aggregation of property exposed to the ravages of a single conflagration. It is hardly necessary to explain, however, that the rules which govern the calculations of the possible spread

of a fire are by no means fixed ; experience has shown over and over again that the most careful estimates may be upset by the intervention of some such special factor as a high wind. Still, even in the most adverse circumstances there is a limit to the area of devastation caused by a fire originating from natural and fortuitous causes.

There are, moreover, circumstances in which a fire may pass all the bounds upon which underwriting calculations are based ; for instance, two buildings or groups of buildings may be separated one from the other by a wide space which no single fire would ordinarily cross, but if the elemental forces are assisted by human malice the sanest calculations are apt to be upset. Thus, once rioters or rebels set a series of fires it is impossible to say where the destruction will be checked or to what area it will be confined, and the possibilities arising out of warlike operations are even more disturbing.

In these circumstances the form of Fire policy in general use at the outbreak of war contained a condition which had the effect of excluding from the scope of the insurance loss arising from riot, civil commotion, military or usurped power or foreign enemy. It was generally assumed that the term 'Military or Usurped Power' included such events as war, civil war, rebellion and insurrection but nevertheless these were sometimes specifically mentioned—presumably with the idea of leaving no loophole for claims in respect of such happenings. This condition had, with slight variations, been in use for many years, and the insured public generally acquiesced in the restriction either because they did not know that it was in their policies or because they thought the contingencies so remote that exclusion of liability for loss thereby was not a great matter. If there had been a widespread demand for insurance protection against fire arising from these causes it is probable that insurers would have been willing to provide it either in the form of separate contracts or by an extension of the scope of existing policies, and a few insurers had in fact tried the experiment of granting policies from which these exceptions were absent, but it is significant that after the out-

break of war those few took the earliest available opportunity (usually the next ensuing renewal date) of withdrawing the concession.

After the outbreak of war, events which are subjects of common knowledge caused the insured public to modify its attitude in regard to the restrictions in the common form of Fire insurance policy. The popular demonstrations which followed the sinking of the *Lusitania* and general indications of labour unrest caused apprehension to owners of property and suggested protection by insurance against damage to property arising from such disturbances.

To those who have had no practical experience of the working of the Riot (Damages) Act 1886 (an Act which imposes upon Local Authorities responsibility for damage to property in Great Britain caused by persons riotously and tumultuously assembled together) insurance would seem to be unnecessary in respect of damage to which that Act applies, but it may nevertheless be desirable. Local Authorities must necessarily be on the defensive; they cannot be compared with underwriters, for they have nothing to gain by prompt and generous settlements of claims made against them. The recovery of compensation under the Riot (Damages) Act usually involves long and difficult negotiations, perhaps even a lawsuit, and in any event public bodies are bound to assess the amount of compensation on the lowest possible scale. On the other hand those who transact insurance as their business desire the goodwill of the public which is best secured by a liberal interpretation of their contractual obligations and a prompt assessment and discharge of the liability.

The need of prompt payment may in certain circumstances be vital to the trader, and especially so in time of war. The business community and owners of private property, being well aware of the attitude of public authorities on the one hand and of the methods of insurers on the other, were quick to see the advantage to be derived from the supplementary protection afforded by an insurance policy. Moreover, the protection afforded by the Riot (Damages) Act is limited in its scope as

it applies only to houses, shops and buildings and the property therein, leaving the owners of goods 'in the open' without remedy; in addition there may, in the opinion of some authorities, be damage done in the course of a common law riot for which the Local Authorities would not be liable, because the class of injury to which the Act relates is that caused by persons riotously *and tumultuously* assembled together. It is easy to imagine a state of affairs which satisfies the common law definition of riot, but from which the element of tumult is entirely absent.

Those engaged in the business of Fire insurance were disposed on their side to examine the conditions in which the requirements of the public could be met. The problem was not entirely a new one because minor disturbances prior to the war—the Suffragist agitation for instance—had indicated that in certain circumstances a desire for such protection did arise. It has been already explained that the chief objection to the undertaking of such risks had been the difficulty of estimating the extent of the probable loss in any one 'riot', and in the days when reserve funds were relatively small this element of uncertainty was a potent deterrent, and rightly so.

Fortunately the men who had controlled and directed the business of Fire insurance for many years past had been actuated by a desire to build not for a day, but for all time. The profits derived from the years of prosperity had not been dissipated by the payment of sensational dividends to shareholders, but had been carefully conserved for the purpose of building up reserves, and this notwithstanding the fact that until the year 1909 the State had made no attempt to exercise special control over the affairs of Fire insurance. The result of this wise and far-sighted self-restraint was that when the Assurance Companies Act of 1909 came into operation the leading Companies had formulated as their ideals:

- (1) A Reserve Fund approximate to 100 per cent. of the annual premium income,
- (2) Dividends to be limited to the amount derived from the interest on the Reserve Fund.

Seeing that the 'Plimsoll Mark' of the Board of Trade in regard to the Reserve is 40 per cent. it may with justice be said that the figure of 100 per cent. indicates a position which those responsible may justly regard with pride and satisfaction.

This being the financial position, insurers rightly came to the conclusion that the old theories with regard to the limitation of possible individual losses might be reasonably revised.

Although certain insurers (chiefly underwriting members of Lloyds) had before the war accepted such insurances at intervals, the volume of business had not been sufficient to be of much practical use in estimating the loss ratio of such insurance even had statistics been available for the information of the general body of insurers, which, in fact, they were not. The problem was further complicated by the fact that selection is always against the insurers. If every holder of a fire policy had paid an additional rate for the extension of his cover the charge would have been quite small; but as might have been expected, those whose property was situated in the danger zone were eager to insure, especially if the property was of a character which would be likely to excite the evil passions of the disaffected, whilst those who had reason to hope that their possessions would be immune were not disposed to pay even a nominal premium. Then again, when trouble seemed to be imminent, requests for cover were numerous and insistent, whilst so soon as the situation seemed to have become normal again those who had protected themselves by insurance during the time of stress asked for cancelment of the policy and a proportionate return of premium.

So far the matter has been considered from the angle of damage caused by fire, the origin of which was riot. The next step naturally was for the public to demand insurance against loss or damage (whether by fire or otherwise) caused by any of the perils excluded from an ordinary fire policy. Strictly speaking this development is outside the scope of simple Fire insurance, but as the practice of the business has uniformly been to associate both classes of damage in one comprehensive policy, the survey would be incomplete without some reference to it.

The legal definition of a riot (whether it be a statutory riot or a common law riot) is precise and clear; it may well happen that either some essential element is lacking or that the line which separates riot from civil commotion, insurrection, rebellion (usurped power), military operations or foreign enemy is passed. The legal definitions of these incidents hardly fall within the scope of this survey, and it is sufficient to remark that loss or damage by fire falls within the four corners of the ordinary fire policy unless the fire was, in fact, caused by one of the excepted perils. In both cases damage not arising from fire would of course be outside the scope of the fire policy. Naturally the public is reluctant to run the risk of finding that insurances effected for the purpose of securing indemnity for the destruction of property do not include the particular event which caused the loss, and the result was a demand for the fullest cover which insurers could be induced to grant. Some underwriters decided to grant the fullest cover, but others—and these were in the majority—felt that the results which might flow from the undertaking of liability for the acts of a foreign enemy were so onerous that it would not be prudent to undertake it. Subject to the reservation as to the elimination of responsibility for damage caused by acts of a foreign enemy, the decision to offer complete indemnity was practically unanimous.

The decision having been taken an initial difficulty arose through the absence of the data necessary for underwriters to assess the rate of premium to be charged. The appropriate rate for ordinary Fire insurance can be ascertained by examining past experience and this is a perfectly sound method because the factors which operate to produce fire waste in any particular trade or industry are sufficiently constant over cycles of years to justify the assumption that what has happened in the past will, with certain variations due to changing conditions, happen in the future. The incidence of loss caused by events which are dependent upon the human element is, however, governed by other conditions. The causes which produce discontent and sedition leading to riot, civil commotion, insurrection, rebellion



and other manifestations which lead to the operation of military or usurped power are by no means constant factors, and past events form no reliable indication of what may happen in the future. So far as riot alone is concerned, the right of recourse against public authorities made the matter of rate less important because underwriters realized that although the insured's right to receive compensation from the Local Authorities is no defence to a demand for payment under a policy of insurance covering loss arising from such disturbances, yet since the insured is not entitled to recover his loss twice over, he becomes, in effect, a constructive trustee for his insurer in respect of his right to recover compensation from other sources. Thus the insurer's liability is in theory limited to the obligation to provide the funds to pay the insured's loss during the interval which elapses between the time when the loss is assessed and the time when the Local Authorities pay. In practice, however, the insurer has to pay on his own account the difference between the amount brought out by a valuation of the loss on the somewhat generous insurance scale and the sum which the Local Authority concerned admits as the measure of the damage sustained.

The Statute which imposes upon Local Authorities liability to pay compensation for damage caused within their areas by rioters followed the lines of the common law which placed upon the 'Hundred' the duty of preserving civil peace within its borders. At the outbreak of war there was a very general impression among the public that as Local Authorities are bound to preserve order or are liable to indemnify those who are damaged by their failure, so, by parity of reasoning, the State is liable to provide compensation for damage arising out of the more serious disturbances which, it was assumed, it was the duty of the State to prevent. This popular impression had, however, no foundation because the Sovereign Power owes no duty to the subject. It is true that the Government did in certain cases grant compensation but this was done as an act of grace only and created no legal right in the sufferers. The distinction is an important one to insurers of property so damaged or

destroyed, because their right to the benefit of their insured's remedies against another can only operate where the right of the insured to compensation is a legal one. When compensation is granted as an act of grace, whether by the Sovereign Power or by any other person, it is reasonable that the bounty should be withheld from those who are entitled to redress from other sources. It cannot be reasonably urged that insurers against such contingencies suffer any injustice by this, for in granting the insurance they must be presumed to have taken into consideration the fact that no right of recovery existed and to have fixed the premium accordingly. In the case of damage for which a legal right to compensation exists the position is entirely different, for insurers are entitled to rely upon that legal right, and to estimate the possibilities of the ultimate loss accordingly, and this consideration does, in fact, influence them materially.

In these circumstances, having decided to meet the public demand for insurance against certain perils underwriters had to construct a rating scheme. Obviously it would not be practicable to fix one flat rate for every class of risk, and the first question which arose was whether the discrimination should be as between districts or between trades and occupations or a combination of both methods. Perhaps the first would have been the ideal method but the difficulty of close definition rendered its adoption impracticable except to a very limited extent.

Another point for consideration was whether rates should be varied from time to time according to the sociological conditions. These factors must inevitably influence rates eventually for, whilst a succession of disturbances resulting in heavy losses will by increasing the prime cost bring about an increase in the premiums charged, a cycle of favourable insurance experience will stimulate competition for the business and so cause a reduction in the rates charged. The change is however a slow one, and it was generally agreed that frequent variations to meet transient circumstances would be inconvenient.

By their action in abandoning the principles (which by tradition were the very foundations of their business) in order to supply what the community needed, those engaged in the working of Fire insurance showed that they realized that their business was one of public utility, and by extending their policies to include loss caused by disturbances other than those in respect of which there is a right of recourse against local authorities, they gave practical proof of their confidence in the goodwill of the people at large and their determination to maintain order within the realm.

In Ireland the responsibility of Local Authorities is governed by the Malicious Injuries Acts under which owners of property wilfully damaged or destroyed are entitled to compensation, and the benefit of subrogation arising from this right would in theory render nominal the liability under a policy covering loss caused by civil or political disturbances. A claimant against the Local Authorities is not under the necessity of proving (as is the case in England) that the damage was caused by persons riotously and tumultuously assembled. Whilst certain underwriters decided to undertake liability for damage arising from civil or political disturbances others decided, after the outbreak of war, that in view of the disturbed state of the country it would be more prudent to refrain. Subsequent events showed the wisdom of this decision, for the refusal of the County Councils to strike a rate for the purpose of paying compensation awarded by the Courts deprived insurers of their subrogation rights.

After the Dublin rebellion of 1916 a Commission was set up to deal with the question of compensation to the sufferers, but in making its awards the Commission deducted the amounts recoverable under policies of insurance in respect of the losses sustained by applicants for compensation, and thus no right of recovery was left to the insurers who had granted such policies. Presumably this course of action was adopted on the ground that the grants to the sufferers were of the nature of compassionate gifts rather than a discharge of a legal liability, and this was admittedly the case so far as the Government was con-

cerned. This, however, could not affect the legal liability of the Municipality under the Malicious Injuries Acts but it may perhaps be contended that 'Malicious Injuries' as defined by the Statutes relating thereto do not include acts which involve the operation of military or usurped power.

The Commission (known as the Shaw Commission) set up under the provisions of the treaty between H.M. Government and the Irish Free State took the view at first that where a claimant had been indemnified under an insurance policy he had suffered no loss entitling him to compensation. In the case of insurances in the ordinary form, the Commission eventually admitted the contention that, in accepting the insurance and in fixing the premium therefor, insurers had been influenced by the fact that they would be able to recover amounts paid in respect of damage caused maliciously. As to insurances effected for the specific purpose of covering damage caused by military power, riot and the like, a different view was taken on the ground that, where losses had arisen, the insurers had merely been called upon to pay for the very thing which they had contracted to cover. In this respect the Shaw Commission followed the procedure adopted by the Commission which sat to assess the losses arising out of the Dublin rebellion of 1916. Eventually a settlement was arrived at and, although no authoritative information on the subject is available, it is believed that the basis of the settlement was one which left the insurers a small profit on the transactions as a whole after debiting premiums and crediting losses and expenses.

There is a sharp line of demarcation between the losses which arose out of the 1916 rebellion and those which were dealt with by the Shaw Commission. In the former case none of the losses came within the scope of what is known as the ordinary fire policy because it was admitted that all of them, having been caused by military or usurped power, by riot or by civil commotion, were covered by the condition in the policy which excludes liability for losses so caused. In the latter case, while there were numerous losses which came within the same category as the Dublin losses, there were many

others in regard to which it was difficult to say that the damage—although caused maliciously within the meaning of the Compensation Acts—was due to the perils excluded from the scope of the ordinary fire policy.

Loss or damage which might be caused by foreign enemy fell within a different category altogether. At a comparatively early period in the war it became apparent that there was serious danger of destruction of property situate in certain areas by bombardment from the air or from the sea, and even the possibility of an invasion was considered not entirely remote. These contingencies naturally created a demand on the part of the public for the extension of insurance protection. A few underwriters decided to grant policies covering these perils, but the feeling of the majority was that the loss might in certain circumstances be so appalling that it would not be prudent to accept liability therefor on any terms. Owing to the uncertainty in regard to the extent of the damage which might be caused, even those who were not unwilling to accept such risks felt constrained to set a limit upon the amount of their aggregate liabilities. Consequently the market was at all times a limited one and the authorities decided that as a matter of public policy it was necessary to allay public anxiety either by accepting responsibility for such damage or by setting up a scheme of insurance. Eventually a Committee was appointed to inquire and report. The members of the Committee were :—

The late the Right Hon. Frederick Huth Jackson.

Sir Raymond Beck, J.P.

Cuthbert Heath, Esq., C.B.E.

E. Roger Owen, Esq.

Sir Gerald H. Ryan, Bart., J.P.

The Committee pursued its investigations with praiseworthy rapidity and in a report dated 9th July 1915 a complete working scheme was submitted to the Government which was adopted in its entirety.

The Committee wisely refrained from making any attempt

to set up a complex rating schedule and recommended the following simple classification :—

	Against aircraft only	Against aircraft and bombardment
	<i>s. d.</i>	<i>s. d.</i>
1. Building, Rent and Contents of : Private Dwelling-houses and Buildings in which no trade or manufacture is carried on	2 0	3 0
2. All other Buildings and their Rents . . . . .	3 0	4 6
3. Farming Stock (live and dead) . . . . .	3 0	4 6
4. Contents of all Buildings other than those speci- fied in 1 and 5 . . . . .	5 0	7 0
5. (a) Merchandise at Docks and Public Wharves, in Carriers' and Canal Warehouses and Yards, in Public Mercantile Storage Ware- houses, and in transit by Rail. } (b) Timber in the open. (c) Mineral Oil Tanks and Stores (Wholesale). }	7 6	10 0

N.B.—(1) Insurances under Class 5 may be accepted for short periods at the following rates :

Six months . . . . .	Three-fourths of the annual premium.
Three months . . . . .	One-half of the annual premium.
One month . . . . .	One-fourth of the annual premium.

All the other rates for twelve calendar months or any shorter period.

N.B.—(2) Buildings, Rent, and Contents must be specified separately.

It will be seen that the only discrimination between property within and property outside danger zones lay in the additional rate required for the bombardment risk.

When the scheme came into operation it was found, as might have been expected, that many kinds of property did not fall into any one of the five classes, but equity of treatment was secured by the setting up of a Committee to which was entrusted the task of settling the classification in each individual case.

The perils insured against were destruction of or damage to property caused directly or indirectly by aerial craft (hostile or otherwise) or shots, shells, bombs or missiles from or used against aerial craft or by bombardment by hostile guns not landed on British territory. The Committee assumed in its

report that the scheme contemplated by the Government was not intended to cover the risk of invasion, and pointed out that in the event of a hostile force effecting a landing in the United Kingdom it would be inconsistent to cover loss by bombardment without covering also other damage incidental to war.

The difficult problem of the administration of the scheme was solved by enlisting the services of the Fire Insurance Companies. The Committee had considered a suggestion that their scheme might be operated through the Post Office but they decided that the Fire Insurance Companies were better equipped for the task. Insurances against damage caused by aircraft or bombardment would naturally be on much the same lines as those which had already been effected against the risk of fire, and consequently it was apparent that applications for insurance under the new scheme could be expeditiously and conveniently dealt with by the insurers who had issued the ordinary fire policies on the property. The data necessary for the computation of the premiums and the draft of the policies would be already in their possession in the form of office copies of the fire policies. Accordingly all Companies engaged in the business of Fire insurance were invited to enter into an agreement to act as agents of the Government for the receipt of applications for insurance, for assessing and collecting the premiums and for issuing the policies; for these services they were to receive a commission of 10 per cent. of the premiums.

The Government scheme did not in any way interfere with the right of private undertakings to offer to the public insurance against these perils and it would have been unwise to attempt to interfere with it. As the Committee had anticipated in its report to the President of the Board of Trade, the free market proved useful not only in affording facilities for insurance in the special cases for which no provision was made in the scheme but also by tempering the rigid lines of a flat-rate system. The Committee pointed out, however, that in the interests of the Government it would be necessary to stipulate that

any insurer who elected to act as agent for the Government should not accept risks on his own account, as without this safeguard insurers acting in the dual capacity might, as underwriters for their own account, appropriate the good risks for themselves, whilst as agents for the Government they might pass the less desirable ones to their principals. Accordingly the agreement between the Government and the Approved Companies contained a clause by which each Approved Company agreed not to act either as principal or agent in the granting of any insurance against a risk which could be covered by a policy in the form issued by the Government.

A few Companies and Lloyds underwriters did in fact elect to transact the business for themselves.

To provide for those who were not insured against fire and those who for any other reason preferred to deal direct with the Government, a State Insurance Office was set up.

One of the chief functions of an underwriter who is operating for the purpose of gain is the selection of risks, and in this the ability to discriminate between varying degrees of moral hazard is an important qualification. There can, however, be no question of selection in a scheme established by a Sovereign State for the benefit of its subjects and therefore those entrusted with the work of handling this kind of insurance were relieved of the task of deciding whether a particular application should be accepted or rejected, their only duty being to assess correctly the premium.

The arrangement made by the Approved Companies for the working of the scheme were simple. Those who decided to employ them as a medium had merely to furnish the number of their fire policy or to supply such information as would enable it to be traced. Thereupon they were told what the premium would be and, upon payment, immediate protection was granted. In some cases the examination of the statement of the property which formed the subject-matter of the insurance involved some delay in the issue of the policy, and in others the protection had to be deferred when the applicant could not, for various reasons, pay the amount of premium



immediately. The practice in Fire insurance transactions had always been to grant what is known as interim or provisional cover during the interval between the receipt of the proposal and its definite acceptance or refusal, with a further allowance, in the former event, of a reasonable time for payment of the premium, provided the proposed insurance was so far as could be judged an acceptable one. The State plan of insurance seemed to require no such temporary protection, but on representations being made to the Board of Trade by the Approved Companies that their insured were accustomed to this course of dealing, the issue of 'Cover Notes' for a period not exceeding seven days was sanctioned on the understanding that the Company issuing such a document would accept responsibility for any monetary loss sustained in consequence of the person to whom it was granted failing to complete the contract by payment of the premium. The privilege was of course never abused by the Approved Companies, and only in a very few instances was it abused by the insured.

The procedure adopted by the State Insurance Office was more formal, but this was necessarily the case owing to the preliminary lack of particulars of the subject-matter of the insurance. Applicants were required to furnish the details in duplicate on official forms and to pay the premium. One of the two forms was then impressed with an official stamp and handed back to the applicant, and this constituted a provisional policy pending the issue of the more formal document.

Claims were settled by assessors approved by the Government, but the survey in connexion with claims under a policy issued by an Approved Company was carried out by that Company. For the purpose of these settlements the principles which apply to losses under ordinary fire policies were adopted. When the preliminaries had been arranged, the papers, with the assessor's report and adjustment, were forwarded to the State Insurance Office and a cheque in settlement was in due course sent to the claimant through the Approved Company.

An interesting sidelight is thrown upon the official estimate

of the probable duration of the war by the fact that the policies as drafted contained no provision for renewal. When the time came for the renewal of the policies a special form of receipt for the renewal premium was drawn up so as to constitute, with the original policy, a compound contract for the second period of insurance. In these circumstances it became necessary to stamp all renewal receipts irrespective of the amount of premium involved. The Government might have, if it had so chosen, decided to claim exemption from Stamp duty, but in order not to weaken the principle in regard to the stamping of insurance policies it decided that all the aircraft contracts should be subject to Stamp duty in the usual way. The expense did not fall upon the Approved Companies, however, as they were authorized to debit the cost of such stamps in their account with the Government.

A great deal of the damage caused by aircraft and bombardment occurred in districts inhabited by the poorer section of the community, and it soon became apparent that no system of voluntary insurance would meet such cases unless it was brought to the notice of those concerned much more effectively than could be done through the medium of the Fire Insurance Companies or of the State Insurance Office. Accordingly, arrangements were made on or about 9th November 1915 whereby insurances for amounts of £25 (premium 6*d.*), £50 (premium 1*s.*), or £75 (premium 1*s.* 6*d.*) could be effected through the Post Office. Subsequently the Government announced that as from 1st September 1917 the Post Office scheme would be replaced by one under which, in effect, every individual was granted a free insurance to the extent of £500 subject to the restriction that if at the time of any loss the total value of all the individual's property exceeded £500 the amount

recoverable would be limited to  $\frac{500}{\text{total value}}$  of any loss.

Incidentally this brought a great deal of additional work upon those who had issued the Government policies, for many policyholders insisted on reducing their policies by that amount the next time they became renewable.

The profit realized by the enterprise upon which the Government had embarked soon caused a demand for a reduction in the premiums, and eventually the Government yielded to the agitation by announcing that the rates would be reduced by one-half as from 17th February 1917. This concession caused the Approved Companies much tribulation, for upon their heads was poured the wrath of those who had effected or renewed policies a short time before the date when the reduction became operative. The arguments that the line must be drawn somewhere, that wherever it was drawn it must operate less advantageously for some than for others, and that a proportionate adjustment of premiums would entail an appalling amount of work, fell upon deaf ears and there was a persistent agitation for some modification, but the Government was obdurate. The result was that the wrath of the discontented was accentuated against the Companies through whose agency their insurances had been effected and in more than one instance this resulted in the severance of business relations which had been in existence for years. The fact is the more astonishing, as any reasonable person might have been expected to recognize that the Companies, as agents, had no alternative but to carry out the instructions of their principal, the Government. The argument of the aggrieved seems to have been that the Companies should have brought pressure to bear upon the Government on behalf of the policyholders.

After the war the results of this Government undertaking were published by the Board of Trade in a White Paper from which it appears that up to 30th November 1918 the premiums received amounted, in round figures, to £13,610,000, whilst the claims paid and outstanding were estimated to absorb £2,970,000 and there were the expenses and commission to be met.

The German raiders whose activities were so pronounced in the early stages of the war stimulated a demand for insurance in the foreign field on lines similar to those of the Government aircraft scheme, and it may be interesting to record that War

Risks insurance, in one form or another, was sought and provided in :

EUROPE.

France	Italy	Sweden
Spain	Greece	Finland
Portugal	Malta	Russia
Switzerland	Constantinople	Riga

ASIA.

Smyrna	India	China
Persia	Ceylon	Vladivostok
Palestine	Burma	Dutch East Indies

AFRICA.

Canary Islands	Egypt	Morocco
Madeira	Aden	South Africa
Azores		

CENTRAL AND SOUTH AMERICA AND WEST INDIES.

Brazil	West Indies	Haiti
Chili	Bermuda	San Domingo
Peru	Cuba	British Guiana

and

ST. JOHN'S, NEWFOUNDLAND.

The general policy of the Government is to remain its own insurer of its own property, but this policy was not always applied to property which, during the war, became the subject of State Control, and on various occasions the assistance of the Fire Offices and of Lloyds underwriters was sought. A few examples will suffice as illustrations.

In connexion with the manufacture and handling of explosives the Government desired to be relieved of liability for any loss or damage which might be caused to controlled works and the plant and materials connected therewith and asked the owners to make their own arrangements in regard to insurance, but it was recognized that such arrangements would only be possible if insurers were disposed to grant insurance protection. In order to provide it the insurers had to make a further modification in their settled practice. Owing to the possibility of the consequences of an explosion being so

far reaching as to be disastrous it had been the settled practice of insurers, for many years, to exclude from the scope of a fire policy loss or damage arising from this cause and in the case of *Stanley v. Western Insurance Company* (1868), L.R. 3. Ex. 71, the Court of Exchequer had held that a condition, 'This policy does not cover loss or damage by explosion', exempted the Company from all the consequences of an explosion, including fire caused by explosion no less than explosion caused by fire. In the circumstances the insurers who had undertaken the ordinary Fire insurance on property were invited to accept liability for explosion damage also. In consenting to extend their responsibility in this direction, underwriters were influenced by considerations similar to those which had induced them to depart from traditional methods in regard to riot and similar political and social disturbances, and this notwithstanding the lack, in this instance also, of past experience to serve as an indication of the probable cost of the protection to be granted. Moreover, the new processes employed in the manufacture of high explosives and the immense quantities of raw material and of the finished article handled and stored introduced a factor of extension which it was impossible to estimate. The Ministry of Munitions, being in a much better position than any one else to foresee the probabilities of disaster in each individual factory or store, used this knowledge for the benefit of the taxpayer by making its own arrangements in regard to the less hazardous risks and passing on to the shoulders of others those in respect of which losses might be expected to arise. This, of course, the Government was entitled to do. Neither the underwriters nor the experts who advised them fully appreciated the extremely 'sensitive' nature of the new explosives (in particular, of picric acid) nor the magnitude of the disaster which might result from their storage in large quantities. The rates fixed were therefore altogether inadequate, apart from the fact that the selection was against the insurers, and although they were increased when experience had been gained, the heavy losses sustained (among which the most serious was the disaster at

Low Moor caused by explosion of picric acid) rendered the adventure a very unprofitable one. However, valuable experience was gained and as a result of the experiment insurers came to the conclusion that the 'unknown quantity' in this peril being chiefly the concussion damage, the ravages of fire following explosion need no longer be excluded from the ordinary fire policy. Arising from this it is now the practice, in consideration of an additional premium, to extend an ordinary fire policy to include even the concussion damage, and in assessing the extra premium for the various classes of risk the experience gained during the war has naturally assisted underwriters very materially.

When the Government assumed control of the corn mills, millers were instructed to continue their existing Fire insurances on buildings and machinery for amounts equivalent to pre-war values, and at the same time it was arranged that the settlement of any loss should be on the same basis. The Food Controller accepted responsibility for stock in trade subject to the qualification that existing insurances should continue to run until expiry. Representations were made to the Controller that in those cases where the policies expired at different dates the running out of the insurances with the earlier expiry dates would place an undue burden upon insurers for partial losses, and to meet this the Controller agreed that for the purpose of the adjustment of any loss on stock in trade his Department should be deemed to have issued a policy for the difference between the actual value of the stock and the sum insured under ordinary fire policies. The effect of this was to make the insurers liable only for their equitable proportion  $\left\{ \frac{\text{Sum insured}}{\text{Value at time of fire}} \right\}$  of any loss.

By an agreement between the Government Forage Committee set up by the Secretary of State for War and a Syndicate composed of most of the leading Insurance Companies and a group of Lloyds underwriters, the Syndicate undertook the insurance of forage from the time of its purchase until it had been trussed and removed from the premises of the vendor.

The insurance included loss by fire or by aircraft and bombardment, and as some of the insurers were 'Approved' Companies under the Government Aircraft Scheme the consent of the Board of Trade was obtained to the inclusion of the aircraft and bombardment risk. The number and amount of the losses proved to be greater than had been anticipated, many fires being caused by sparks from the engines connected with the mechanical trussers and other machinery used by the Forage Committee, and on the expiry of the original period of the agreement there was a deficit. For the second term, however, a slightly higher rate was agreed upon and in the final result the Syndicate was left with a small surplus of premiums over losses.

New forms of insurance were evolved, not only in the United Kingdom but in all parts of the world, and of these, perhaps, the most interesting were those concerned with the Government pools for wheat and fodder and for cotton. Departing again from its usual attitude the Government decided that its purchases in the open market must be covered by insurance, and it appealed to underwriters for co-operation. At first sight it would not be a very difficult matter to devise a satisfactory scheme, but the position was this. Insurers had already their own trade connexions with whom they had been accustomed to do business and their insurances were running for normal amounts or possibly for amounts in excess of the normal owing to the congestion which arose from the irregular steamship services. The Government was a buyer of wheat, or wool, or cotton as the case might be alongside of the ordinary merchants, and its agents bought wherever they could obtain supplies. The result was that it was rarely possible to give to insurers the particulars of construction of the buildings, the value of the stocks and other information which insurers require to enable them to grant insurance. At the same time in the interests of the taxpayer insurance had to be provided and the leading insurers were asked to suggest a means of dealing with the situation.

A combination or pool was suggested and was indeed neces-

sary because the Government wished to have the agreements reduced to the smallest compass and to deal with as few principals as possible. A single insurer was usually put in charge of a pool and this insurer undertook on behalf of the Government to supply all who participated in the pool with the information that was necessary for completing the insurance. The insurers charged the Government with a small commission for the work. The results were satisfactory to both sides, although the insurers had to risk a possible accumulation of liability for which they could hardly provide by effecting re-insurance since the point of congestion was not known beforehand, the Government purchases being stored in warehouses according to the exigencies of the moment and not on any arranged plan.

It is worthy of record that every one of the insurance schemes which were arranged between H.M. Government and various groups of insurers was carried through in a manner which was entirely satisfactory to all concerned.

- a At the outbreak of war the general impression was that there were lean years ahead, and it seemed probable that this anticipation would be realized. Many of the experienced workers in the various trades and industries were absorbed by the Army and Navy and they had to be replaced by unskilled substitutes, and there is no doubt that the resultant disorganization was responsible for many fires. In many industries, too, there was uncertainty as to the effect which would be produced by the war, and the general slackness which resulted from this state of affairs tended to raise the fire-loss ratio. When, however, it became apparent that the demand for almost every kind of commodity would exceed the supply, matters adjusted themselves with startling rapidity.

The general advance in the price of buildings, machinery and materials of all kinds did not immediately bring increased premiums to insurers, for the insured were in most cases too much occupied with matters of more urgent importance to take steps to bring the amount insured into line with the altered



conditions. Consequently when partial losses occurred the amounts payable were, in proportion to the sums insured, much greater than they had hitherto been, for however inadequate the amount of the insurance may be the insured is entitled under a fire policy to recover up to the total amount of the loss provided it does not exceed the sum insured by the item affected. The only exception to this rule is where the policy is 'subject to average', that is, to a condition that if at the time of the loss the sum insured is less than the value of the subject-matter of the insurance the amount recoverable by the insured shall be only a proportionate part  $\left\{ \frac{\text{Sum insured}}{\text{Value of the subject-matter}} \right\}$  of the loss. In the past there has been strong objection on the part of the public to the use of this condition. In reality its effect is just as beneficial to the public as to insurers, because the premium payable for the insurance of any particular class of risk is directly dependent upon the ratio which the losses incurred in respect of risks of that class bear to the premiums received; therefore if non-average insurances are granted in respect of any class it is obvious that those who insure for less than the value of their property contribute less than their fair quota of premium, to the detriment of those who insure for the full value. Of late years there has been a tendency on the part of the business community to recognize the soundness of this argument, and there is reason to suppose that the effect produced by the phenomenal rise in prices during the war assisted in bringing this about. A remarkable illustration is furnished by the case of cotton-mills. The experience about the year 1914 was so unfavourable that it became necessary to increase rates considerably and at the same time the principle of making all insurances subject to average was generally adopted. The increase in the sums insured and the consequent increase in premium so greatly exceeded expectations that it was afterwards found that the introduction of average alone would be sufficient to put the business on a remunerative basis and a complete rearrangement of the rating scheme was carried

out under which the rates were reduced below even those which ruled before the former revision.

Most of the important British Insurance Companies carry on their business through branches or agencies in nearly all the inhabited portions of the earth. They give considerable latitude to their representatives but in normal times expect *ex post facto* advices at regular intervals in order to keep at the head offices a proper statement of assets and liabilities.

Much of the business is ordinarily transacted by cablegram but the war stopped this. Many of the cables were cut and repair was impossible, while those that were in use were so much engaged that a cablegram from India would often take as much as eight to nine days. When it is remembered that many of the proposals for insurance are made at the last minute and cover is required immediately, it will be seen how greatly business was hampered by the long delays.

We do not attribute any part of the blame to the censorship because in our opinion the censorship of telegrams and postal matter was one of the functions which the Government carried out most successfully during the war. Certain codes were prescribed for use, of which the censors had duplicates, and as a rule no serious delay was caused by translation, while many offices found that sooner than delay what might be an important business proposal the officials at the Censor's Office most courteously endeavoured to clear up doubts either by a telephone conversation or personal interview which made for expedition.

The ordinary letter mails were of course seriously reduced while several of the mail carriers, especially those on the Far Eastern routes, were torpedoed and sunk with all the cargo and mails on board. It says much for the ingenuity and willing work of the staffs of the offices that duplicates were so quickly to hand when originals had been lost.

It is not necessary to refer at length to the employment during the war of lady clerks in the Companies' service. It is something that was in common with every kind of profession and trade, but the discovery was made that for certain portions

of the work the lady clerk was so efficient she has probably come to stay. The experience in this respect corresponds with that of banks.

A problem involving very large issues was that of exchange. Those engaged in the business of insurance had become so accustomed to the simplicity of the exchange problem, when practically every exchange was fixed, that few were prepared for what actually happened. It is true that there had been occasional incidents in some Central or South American State in which, owing to the default of the Government in payment of interest on loans, the ordinary currency had been so depreciated that commercial transactions were rendered impossible. But the problem that arose was of far wider application. The exchanges were affected not so much during war as after war, but the result was great confusion. If an insurer had important interests in the United States he was faced with the fact that the dollar had risen against sterling. If money had to be remitted to the home office of the insurer the insurer was the gainer, but if the home office had to remit to the United States it obviously took more sovereigns to buy a given number of dollars. A curious effect was produced which was apart from remittances.

Head offices naturally keep their books in sterling and in order that premiums in foreign currencies may be brought into their books they have to be converted at a rate of exchange, usually that at which the currency was sold for pounds sterling at the time of remittance. Re-insurances, however, are often effected months after the currency premium was received and it frequently happened that at the date of effecting the re-insurances the rate of exchange would be against the insurer and he paid away in sterling to re-insurers in Great Britain more than the premium which he actually received, although, of course, he did not re-insure the whole of the policy.

Added to this there was the difficulty of getting remittances, for most of the Governments of foreign countries imposed restrictions on the export of money. Thus nominally wealthy insurers were apt to be hard put to it to find cash for their current transactions.

The exchange of the German mark and the Austrian crown was respectively 20 43 and 12·08 to the pound before the war but after many fluctuations the German mark during 1923 fell so low as to require 50,000,000,000,000 of them to make up one pound sterling and the Austrian crown quotation was as much as 350,000 to the pound. The position in Germany to-day is somewhat different owing to the creation of the Reichsmark. The Reichsmark or Rentenmark, which is worth one billion paper marks, is based on the American gold dollar, 4·20 Rentenmarks being the equivalent to one gold dollar.

The effect in an insurance business is not comparable with that felt in commerce and trade. A merchant who has made contracts and finds them impossible of fulfilment can cancel them, but insurers make contracts not for definite liabilities but for contingent liabilities and those contracts must run until they terminate by effluxion of time.

These vagaries in exchange would have affected very seriously the British insurers in their settlement of pre-war accounts with German and Austrian re-insurers had it not been for the establishment of the Government clearing offices under the terms of the peace treaties. By their terms enemy sterling assets were used in this country to extinguish enemy sterling debts and they proved to be sufficient for the purpose in the case of Germany. Had they not it is obvious that few enemy re-insurers could have found sufficient currency to buy the sterling.

Holders of insurance policies sometimes find it difficult to understand the difference in rating which they find applied to their insurances on properties situated in different parts of the world. The average rate in the United Kingdom for all Fire insurance policies is 4s. per cent. and in France, Germany, Italy and Spain the rate is very similar. In Sweden it is 8s., in the United States of America 20s., in Canada 24s. and, roughly speaking, elsewhere 10s.

The conditions as represented by the prevailing construction of buildings are admittedly diverse, but those who are familiar with the larger cities of America and Canada will fail to discover

such a diversity of construction in the United States and Great Britain as would justify a difference in rate of 5 to 1. Outside of the large cities in the United States the construction of the buildings is less solid but the high values involving insurances for important sums (which, in turn, influence the average rate) will always be in the principal cities. What then are the circumstances which account not only for this vast difference of rate between England and the United States of America but also for the other differences which have been indicated ?

There is a feature of Fire insurance which is very well known to insurance managers although it is of an impalpable nature. It is sometimes referred to as the 'moral hazard'. A more accurate designation might perhaps be the 'immoral hazard'. The postulate is that all fires are accidental in origin, inasmuch as a man cannot be assumed to wish for the destruction of his own property. The facts are not in accordance with the postulate. There may be a varying degree of human activity in the circumstances which bring about a fire: sometimes those activities are of a negative character, being the outcome of carelessness or negligence, but unfortunately for underwriters it is well within their knowledge that in other cases the activity is of a positive kind. Underwriters, however, are not the keepers of the public conscience and they do not act as policemen. All that they are accustomed to do is to repudiate liability, when an improper claim is made, without giving reasons. The insured can then pursue his legal remedy if he is innocent, and if he succeeds the insurer invariably accepts the decision and pays.

That the theory of human complicity in many of the fire claims that arise is not a product of the imagination is shown to some extent by the regular periodicity of fires and fire claims in line with the state of trade. It cannot be maintained that it is a pure accident that when trade is booming fires are scarce and when trade is dull fires become more frequent, for the available statistics point irresistibly to the contrary conclusion.

During the war it necessarily happened that markets could be found for almost all commodities but that supplies were

short, and although some of the less experienced underwriters foretold a period of disaster during the years of the war the more experienced observer was confident that the results of trading would be better than the average and he was justified. No doubt this result was brought about in part by the increased premiums which were derived from new classes of business but the result was so consistently favourable during the  $4\frac{1}{2}$  years that the war lasted that a pretty strong case is presented for the theory which has been enunciated.

To those who are curious it may be explained that the difference in rate to which reference has already been made is to be attributed to a difference in the burning risk of the different countries. It must not be assumed without corroborative evidence that an inhabitant of Great Britain is six times more honest than an inhabitant of Canada. There may be other causes than human volition, for instance fire-fighting appliances, efficiency of the police, water supplies, height of buildings, methods of heating, character of climate and many others, but when all these features have been allowed for there is still a *tertium quid* which has been described above as a 'moral' or 'immoral hazard'.

Fire underwriters are not seers ; they are guided very largely by the result of experience and this is the ultimate explanation of the difference in rates prevailing in any two countries that may be selected for comparison, but the point that has been brought out in the preceding paragraphs is, briefly, that one of the economic effects of the war in Fire insurance was the diminution of the ratio of claims to premiums, and that were this economic effect to be perpetuated there would be far more uniformity in rating throughout the world than there can be at present.

It is sometimes suggested that the principle of the common law which prohibits trading with the enemy during war is founded on public policy. Historically this is not the case. The principle originated in the primitive conception of war which imputed mutual hostility to the individual subjects of belligerent powers.

It is worthy of note that in the case of *Henkle v. Royal Exchange Assurance Company* (1749) 1. Ves. Sen. 317, 320, Lord Hardwicke said, 'No determination has been that insurance on enemies' ships during war is unlawful; it might be going too far to say all trading with enemies is unlawful', and that in the case of *Bell v. Gilson* (1798) 1 B. & P. 345, 354, Mr. Justice Buller observed that he had had many conversations with Lord Mansfield, who thought it was a good thing to promote insurance of enemy's property. From this it is evident that Lord Mansfield's inclination to exempt insurance contracts from the disabilities in regard to trading with the enemy which English law imposed upon other branches of trade and commerce was due to his expectation that the premiums derived from the unfettered right to carry on the business of insurance would more than compensate for the benefits which the enemy would be likely to derive from the payment of losses. In opposition to this was the argument that it would be ridiculous to neutralize the work of the Navy in destroying enemy shipping by allowing British underwriters to indemnify alien enemy insured for losses thus sustained. The logical course would have been to limit the operation of the rule to such cases and to exclude from its operation losses arising from other causes. The distinction between the two cases was, however, soon lost sight of and in 1800 Lord Kenyon definitely adopted the view expressed by Lord Stowell in the case of *The Hoop* (1799) 1 Ch. Robb 196 that all private trading with the enemy was illegal without the licence of the Crown.

The fundamental rules which now govern the position were formulated in a series of decisions on cases arising during the Napoleonic wars. The following is a brief record in chronological order of the leading decisions: .

1792. Where a contract inures to the aid of an enemy it is abrogated by War. So an insurance effected in Great Britain on a French ship previous to the outbreak of War between the two countries does not cover a loss by British capture.

Executory  
Contract.  
Insurance  
effected  
before War.  
Loss (British  
capture) dur-  
ing War.

*Furtado v. Rogers* (1792) 3 B. & P. 191.

1794. The insurance of enemy property in time of War is illegal and void.  
*Bristoe v. Towers* (1794) 6 D. & E., T.R., 35. Insurance effected during War.
1800. Trading with the enemy, without the King's licence, is illegal.  
*Potts v. Bell* (1800) 8 D. & E., T.R. 548. General Rule.
1803. Every insurance on alien property by a British subject must be understood, with this implied exception, that it shall not extend to cover any loss happening during the existence of hostilities between the respective countries of the Insured (alien enemy) and Insurer (British).  
*Brandon v. Curling* (1803) 4 East 410. Executory Contract. Insurance effected before War. Loss (from any cause) during War.
1806. The right of an alien enemy to payment of a debt incurred before the outbreak of War is only suspended by War and may be enforced upon the restoration of Peace.  
*Ex parte Boussmaker* (1806) 13 Vesey 71. Executed Contract. Contract made (and executed by one of the parties) before War.
- [The debt which gave rise to this case was incurred in time of peace—the debtor became bankrupt after the outbreak of War—alien creditors put in a proof of debt—the Commissioners in Bankruptcy refused to admit the claim on the objection that the Creditors claiming to prove were alien enemies.]
- The Lord Chancellor said :
- ‘The policy of avoiding contracts with an enemy is sound and wise, but where the contract was originally good and the remedy is only suspended the proposition that therefore the fund should be lost is very different. Let a claim be entered and the dividend be reserved.’
1817. No contract made with an alien enemy in time of War can be enforced in a British Court although the plaintiff do not sue until the return of peace and although he be a British subject resident in the enemy country.  
*Willison v. Patteson* (1817) 7 Taunton 439. Contract made during War with a resident in an Enemy Country, such Resident being a British subject.



The Crimean War added to the case law on the subject but the only decision which need be mentioned here is one to the effect that

A contract made with an alien enemy and executed by him before the outbreak of War is not made void by such outbreak. It is merely rendered unenforceable by him during the existence of the War.

*Alcinous v. Nigreu* (1854) 4 E. & B. 217.

Executed Contract. Contract made (and executed by one of the parties) before War.

The early cases affecting insurance related to marine transactions but the principles can be readily applied to Fire insurance business.

The American Civil War gave rise to a case (*New York Life Insurance v. Statham* (1876) 93 U.S. Reports Supreme Court 24) which related to Life insurance and as the doctrines of the common law of the United States of America are similar to our own the principles laid down by the Supreme Court are relevant to the question under consideration.

1. A policy of life insurance which stipulates for the payment of an annual premium by the assured, with a condition to be void on non-payment, is not an insurance from year to year, like a common fire policy; but the premiums constitute an annuity, the whole of which is the consideration for the entire assurance for life, and the condition subsequent, is a condition making, by its non-performance, the policy void.
2. The time of payment in such a policy is material, and of the essence of the contract; and a failure to pay involves an absolute forfeiture, which cannot be relieved against in equity.
3. If a failure to pay the annual premium be caused by the intervention of war between the territories in which the insurance company and the assured respectively reside, which makes it unlawful for them to hold intercourse, the policy is nevertheless forfeited if the company insists on the condition; but in such case the assured is entitled to the equitable value of the policy arising from the premiums actually paid.

This is an example of the application of equitable principles to an executory contract which was rendered impossible of performance in consequence of War.

4. This equitable value is the difference between the cost of a new policy and the present value of the premiums yet to be paid on the forfeited policy when the forfeiture occurred, and may be recovered in an action at law or a suit in equity.
5. The doctrine of revival of contracts suspended during the war is based on considerations of equity and justice, and cannot be invoked to revive a contract which it would be unjust or inequitable to revive—as where time is of the essence of the contract, or the parties cannot be made equal.
6. The average rate of mortality is the fundamental basis of life assurance, and as this is subverted by giving to the assured the option to revive their policies or not after they have been suspended by a war (since none but the sick and dying would apply), it would be unjust to compel a revival against the company.

It is interesting to note that the method of arriving at the 'equitable value' follows closely the rule prescribed by our own Life Assurance Companies Acts Amendment Act 1871 (since replaced by the Assurance Companies Act 1909) for valuing a life policy when the Company which issued it is being wound up.

The Assurance Companies Act of 1909, which regulated the carrying on of Fire insurance business on lines similar to those already applied to Life assurance by the Act of 1871 (which as already indicated was replaced by the Act of 1909), contains a rule for valuing a fire policy, on the winding up of the insurer, which follows the same principle, and the Treaty of St. Germain's specifically extended the principle to re-insurance when it provided, in effect, that accounts between re-insurer and re-insured should be adjusted on the terms which would have applied under the Act if the re-insurer had gone into liquidation on the date of the declaration of war between this country and the country of the re-insurer.

The South African War also contributed its quota to the case law on this important subject. When war between Great

Britain and the Transvaal Republic was imminent the Driefontein Consolidated Mines Limited—a Company registered in the Transvaal—effected with British underwriters an insurance against capture of treasure during its transit from the Transvaal to this country. On the 2nd October 1899 the Government of the Transvaal seized the treasure during transit and nine days later a state of war ensued between the two countries. It was held by the House of Lords that as the seizure was made before the declaration of war (although in contemplation of war and in order to use the treasure in support of the war) the insurance was valid and that consequently—after the restoration of peace—an action might be maintained in this country against the underwriters [*Janson v. Driefontein Consolidated Mines Limited* (1902) L.R., A.C. 484 (House of Lords)].

It may perhaps be urged that as this does not profess to be a legal treatise too much space has been given to an analysis of the leading cases bearing upon this aspect of the subject. The object of the analysis, however, is to show that up to the time of the outbreak of war with Germany the rules laid down had dealt rather with the effect of a state of war upon contractual relations between British subjects and alien enemies than with the penalties incurred by British subjects violating the rule. A thorough appreciation of this important point is necessary in order to understand the consternation caused among the commercial community by the proclamations issued by the Government after the outbreak of the European war for, strange as it may seem now, business men had not realized until August 1914 that trading with the enemy was a criminal act. In connexion with insurance, for instance, the rule of English law with regard to contracts with alien enemies had formed the basis of propaganda against British underwriters in various parts of the world by those interested in foreign insurance undertakings, and the former had seriously considered the feasibility of counteracting this propaganda by inserting a clause in their policies agreeing not to take advantage of the rule, but the idea was abandoned because it was realized that such an agreement would itself be a contract which would be

subject to the same rule and not because any attempt to implement it would be a criminal offence. It is in fact extremely difficult for a business man to apply such a principle of law to his own transactions however well defined that principle may be.

A record of the effect of the war upon the business of insurance would not be complete without a detailed statement of the proclamations and legislation which resulted.

There appeared in a Second Supplement to the *London Gazette* of Tuesday the 4th August 1914, dated 5th August 1914, a proclamation relating to trading with the enemy beginning :

‘Whereas a state of war exists between us and the German Emperor and whereas it is contrary to law for any person resident, carrying on business or being in our Dominions, to trade or have any commercial intercourse with any person resident, carrying on business or being in the German Empire without our permission; and whereas it is therefore expedient and necessary to warn all persons resident, carrying on business or being in our Dominions, of their duties and obligations towards us, our Crown, and Government. Now therefore we have thought fit, by and with the advice of Our Privy Council, to issue this Our Royal Proclamation, and we do hereby warn all persons resident, carrying on business, or being in our Dominions not to . . . make or enter into any new marine, life, fire or other policy or contract of insurance with or for the benefit of any persons resident, carrying on business, or being in the said Empire, nor under any existing policy or contract of insurance to make any payment to or for the benefit of any such person in respect of any loss due to the belligerent action of His Majesty’s forces or those of any ally of His Majesty.’

A similar proclamation of the 12th August was issued following the existence of a state of war with Austria.

It will be noticed that two different actions are envisaged. The one the issue of fresh policies of insurance to enemy subjects, the second the payment under existing policies of losses or claims arising out of the state of war. As the payment of claims arising from other causes was not prohibited it was consequently assumed for the time being this was not illegal.

A Second Supplement to the *London Gazette* of the 8th September 1914 and dated 9th September 1914 was issued

revoking the two previous proclamations and giving effect to the following prohibitions :

‘ Not to pay any sum of money to or for the benefit of an enemy. Not to compromise or give security for the payment of any debt or other sum of money with or for the benefit of an enemy. Not to make or enter into any new marine, life, fire or other policy or contract of insurance with or for the benefit of an enemy ; nor to accept or give effect to any insurance of, any risk arising under any policy or contract of insurance (including re-insurance) made or entered into with or for the benefit of an enemy before the outbreak of War.’

‘ Enemy ’ was defined as meaning any person or body of persons of whatever nationality resident or carrying on business in the territories of the German Empire and of the dual monarchy of Austria-Hungary together with all the colonies and dependencies thereof, but it was expressly provided that where an enemy had a branch locally situated in British, allied or neutral territory, not being neutral territory in Europe, transactions by or with such branch should not be treated as transactions by or with an enemy.

This proclamation again left some points in doubt for it was apparently not illegal to continue to operate re-insurance contracts although it would have been illegal to pay money which became due under such contracts. To set the matter at rest a third Supplement to the *London Gazette* of Tuesday 6th October 1914 and dated 8th October 1914 was issued which revoked the paragraph in the preceding proclamation and substituted the following :

‘ Not to make or enter into any new marine, life, fire or other policy or contract of insurance (including re-insurance) with or for the benefit of an enemy ; nor to accept, or give effect to any insurance of, any risk arising under any policy or contract of insurance (including re-insurance) made or entered into with or for the benefit of an enemy before the outbreak of War ; and in particular as regards Treaties or Contracts of Re-insurance current at the outbreak of War to which an enemy is a party or in which an enemy is interested not to cede to the enemy or to accept from the enemy under any such Treaty or Contract any risk arising under any policy or contract of insurance (including re-insurance) made or entered into after the outbreak of War, or any share in any such risk ’.

and in the same proclamation the exception previously made in favour of enemy branches situated in British, allied or neutral territory was withdrawn, and it was declared that where such branch carried on the business of insurance or re-insurance of whatever nature transactions by or with such branch in respect of the business of insurance or re-insurance were to be considered as transactions by or with an enemy.

A difficulty arose over the use of the word 'branch' for the majority of the Companies had not a branch under a paid official but only agents working on commission.

A fourth proclamation styled 'Supplement to the *London Gazette* of Tuesday 16th February 1915' was issued, but the only material point in it which requires mention is the provision that where territory of an allied State (such as Belgium) or territory of a neutral State (such as Luxemburg) was in the effective military occupation of an enemy the proclamations relating to trading with the enemy should apply as they applied to an enemy country.

A fifth proclamation styled 'Supplement to the *London Gazette* of 25th June 1915' changed the test of enemy character from *locus* to nationality in China, Siam, Persia and Morocco.

Meanwhile the 'Trading with the Enemy (Extension of Powers) Act 1915' was passed giving to the Executive power to prohibit by proclamation trading with any persons or bodies of persons even though not resident or carrying on business in enemy territory or in territory in the occupation of the enemy wherever by reason of the enemy nationality or enemy association of such persons or bodies of persons, incorporated or unincorporated, it appeared to be expedient. This was the beginning of the famous Black Lists. Insurance was at first exempted. 'Nothing in this Proclamation shall be taken to prohibit any person or body of persons, incorporated or unincorporated, resident, carrying on business, or being in the United Kingdom who is engaged in any neutral country in the business of insurance from carrying on such business with or through the agency of any of the persons or bodies of persons mentioned

in the Statutory List.' Public Utility Companies were likewise exempted in terms.

The countries dealt with in the earlier proclamations were Greece, Morocco, Netherlands, Norway, Portugal, Portuguese East Africa, Spain and Sweden. By the 23rd May 1916 the following countries had been added: Argentine and Uruguay, Brazil, Chili, Cuba, Ecuador and Peru, Japan, Netherlands East Indies, Persia and Philippine Islands, Denmark.

Another variation had been made on 26th April 1916. The exemption in favour of insurance was continued provided that it were other than the business of Marine insurance or of the insurance against fire or any risk of goods or merchandise during transit from shipper's or manufacturer's warehouse until deposited in warehouse on the termination of the transit, if any part of the transit was by sea.

Fourteen further lists were published in 1916, twenty-seven in 1917, twenty-eight in 1918 and five in 1919. It is unnecessary to specify all the countries as it will readily be gathered that the net was spread as widely as possible. Names were being constantly added and there were some removals.

The exception made in favour of Fire Insurance Companies was looked upon with some jealousy by other traders and a word of explanation may be desirable. It was recognized from the first that prohibition would defeat its own object. There were agencies of enemy Companies abroad and the more premiums they could take the better equipped were they for continuing in business. There was a natural disinclination to insure with an enemy Company for fear that funds for the payment of claims would run short, but a prohibition laid on British Companies would drive traders into the hands of enemy Companies thus diverting the premium money from British to enemy coffers. Secondly, it was not only a question of the taking of premiums but also of the fulfilling of contracts, i. e. the payment of claims, and these were enforceable in the local Courts despite a British Government prohibition. Thus it was within the power of the insured to nullify the effect of a prohibition by the simple expedient of bringing an action

against the insurer for it has been a principle with insurers to submit themselves unreservedly to the jurisdiction of the tribunals of the country in which they effect their contracts, and not only a principle but a necessity, for although lawsuits in Fire insurance are happily not frequent it is unthinkable that a claimant who desires to bring an action should be precluded from having recourse to the Courts of his own country. Thirdly, the point affected us much more than our allies for no other country had Companies which do the world-wide business which British Companies do. And lastly, it was a necessity in the general interests, for insurance is the handmaid of banking and commerce, and the inability to meet contracts would have had a serious effect after war as detracting from the reliability of British Insurance Companies.

When America came into the war in 1917 the Government of the United States adopted an Enemy Trading List based very largely on the British lists. The circumstances in the United States were somewhat different from those prevailing elsewhere in that there was a number of enemy Insurance Companies operating under branches and agencies there and no doubt persons and firms of all nationalities were insured with them. Consequently a system of licensing was adopted under certain restrictions.

France also had its Black List, but it dealt specifically with re-insurance matters.

Eventually at the beginning of 1918 the concession granted to Insurance Companies in Great Britain was withdrawn. The Government intimated that it had been granted largely on account of the American business and now that America was in the war and had adopted her own measures in regard to the subject the *raison d'être* for the concession was past. Possibly too much importance was attached to the belief that an economic offensive was a war measure. The British Insurance Companies were now, as always, anxious to do the patriotic thing and they contented themselves with pointing out the difficulty that would arise in regard to obligatory treaties under which re-insurances were accepted in neutral countries for it



was naturally impossible when the acceptance of all re-insurances was obligatory to repudiate liability under a re-insurance which was made on a policy issued to a person or firm on the British Black List.

Those insurers who were represented by persons or firms included in the Black List were able to cancel the agency appointments without difficulty and it says much for the good relations which had existed in former times that these persons or firms accepted the cancelment with good grace as being produced by necessity, but in a number of instances it meant a considerable sacrifice of premium income.

The question whether the proclamation and the Acts of Parliament which resulted from the European war varied or superseded the common law as it existed previous to the outbreak is of considerable interest. Lord Justice Scrutton in his dissenting judgment in the case of *Tingley v. Müller* (1917) 2 Ch. 144 ; 116 L.T.R. 482, gave a lucid explanation of the situation in the following terms :

‘The question is whether the statutes and proclamations have superseded the common law. They are numerous and complicated and bear marks of considerable haste in drafting. The most material proclamation is that of the 9th September 1914, superseding an earlier one of the 12th August 1914. It is apparently issued under the prerogative as a warning of things forbidden and a statement of things allowed. The latter may restrict the common law ; the former, if not exhaustive, in my view does not so restrict the common law. I agree with Sargant, J. in *Robson’s* case (118 L.T.R. 523 ; (1915) 2 Ch. 124) that mere silence or omission in the proclaimed list of things prohibited is not enough to relieve from any prohibition at common law. Then follow two Acts of Parliament making a statutory offence with a statutory penalty, the Trading with the Enemy Act, 1914 (4 & 5 Geo. V, c. 87) coming into effect on the 18th September 1914, and the Trading with the Enemy Act, 1914 (5 Geo. V, c. 12) coming into effect on the 27th November 1914. Both Acts are to be construed together. The Acts appear to me to leave the common law unaffected, while they provide statutory remedies for the statutory offences created.’

One curious effect of the war, and one that was unlooked for and unprovided for, was the withdrawal of the ordinary channels for re-insurance. It may not be generally known that re-insur-

ance as opposed to insurance was an art that had grown up principally, and to a considerable extent, in Germany.

Re-insurance in the sense in which it is technically used does not relieve the insurer of all liability but only of a portion of the liability, and its purpose is to enable the insurer to write policies for larger amounts than his financial resources or experience would render prudent for his own account alone. These policies for large amounts are not issued from motives of greed on the part of the insurer. They are issued principally to meet the requirements of many of his insured. It may be indifferent to a merchant abroad (who has only to consider the amount of his insurance) with how many Companies he has policies running, but to a manufacturer where alterations in system or method of working which are made from time to time have to be promptly advised to all his insurers he naturally prefers to deal with one Company only. Even in countries where it is the practice for the leading insurer to act as the intermediary it frequently happens that the insured has a decided preference for a single policy.

This is the reason why re-insurance exists and, as has been mentioned already, this re-insurance was effected to a considerable extent (it has been estimated that the proportion was as much as 65 per cent. of the whole) with German and Austrian Companies.

It cannot be said that war between Germany and Great Britain was unforeseen by underwriters any more than by thinking people at large, but both sides had believed that contracts entered into deliberately and in good faith would be respected, and although it was recognized that the fulfilment of them during the time of war would be impossible it was regarded as certain that once the war was over and peace was declared, and ordinary commercial intercourse resumed, re-insurance contracts would be operated again and the accounts of all transactions during the war would be rendered and settled.

When, however, the Peace Treaty of St. Germain was published it was found that this re-insurance system, in so far

as it took the form of contracts signed by both parties, was terminated as from the date of the outbreak of war.

As a consequence the re-insurance system broke down, and underwriters found themselves in the position of having paid away a portion of their gross premiums to effect a re-insurance of part of the liability, although by reason of the contracts being cancelled they were unable to recover from their German re-insurers the re-insured proportion of the claims and they were saddled with the payment of the gross loss. The position was somewhat alleviated towards the end of 1921 by the fact that refunds of the unearned re-insurance premiums were recovered from their German re-insurers by British Companies through the intervention of the Government clearing offices.

It may appear peculiar that the British underwriters, who are reputed to be men of foresight and judgement, should have placed as it were all their eggs in one basket, but this much may be said for them, that just as insurance itself is an art so re-insurance is an art, and the art had been brought to a perfection in Germany that it has attained in no other part of the world. The aim of a re-insurer naturally is to meet calls upon him promptly and readily. He must transact his business at a profit and that may seem a remote possibility when the insurer has presumably re-insured entirely for his own advantage, but whatever the appearance the fact remains that not only did the re-insurer make a profit out of his transactions but he in turn became the insurer to a second re-insurer and so on to the  $n^{\text{th}}$  degree, each insurer in turn taking his profit out of what was passed to him and every one making a success of his business.

It would be tedious to inquire how this was done, but probably cheapness of labour and perfection of method will suggest themselves to most readers as being two of the outstanding features.



THE EFFECT  
ON  
BRITISH LIFE ASSURANCE  
OF THE  
EUROPEAN WAR (1914—1918)

BY  
S. G. WARNER



## PREFACE

IN writing the following pages I have tried chiefly to address those who, while interested in financial and economic questions generally, are not acquainted with the technical details of Life assurance as those professionally connected with it must be. The latter will therefore probably find in this essay some space devoted to explanatory matter which for them is familiar and unnecessary. This I must ask them to excuse.

No one who has undertaken a work of this kind can help feeling at the end of it how approximate much of the information, how tentative all of the conclusions, must be. The effects of the war on every one of our national industries are still working themselves out. It will not be possible to judge them completely for many years. What has been done must therefore be appraised accordingly.

The chief source of information in making this study has been the series of the annual returns by the Life Assurance Companies to the Board of Trade. It deals only with the Companies making such returns, established within the United Kingdom, and transacting Ordinary Life assurance business, Industrial Life assurance business, or both.

I have pleasure in acknowledging my indebtedness also to the following :

- ‘ The Effect of the War on Life Assurance ’, by H. Brown, B.A., F.I.A., read before the Insurance Institute of London on 20th December 1920.
- ‘ The Effects of the War on Life Assurance Organization ’, by W. H. Aldcroft, F.I.A., read before the Insurance Institute of Manchester on 7th February 1922.
- ‘ The National Services rendered by Insurance Companies during the War ’, by W. Crichton Slagg, Chairman of the Fire Offices’ Committee, read before the Insurance Institute of London on 19th March 1923.

I further very heartily acknowledge the courtesy shown me, in giving access to sources of research, by the Companies

Department of the Board of Trade, the Actuary of the National Debt Office, the Secretary of the Life Offices' Association, and the Assistant Secretary of the Institute of Actuaries; while to my friends in the Life assurance profession who have so generously helped me by information and suggestions I proffer sincere thanks.

S. G. WARNER.

*May, 1923.*

Since the above was written a few additions have been made. These appear as foot-notes marked 'Note of 1925'.

S. G. W.

*April, 1925.*



## I. INTRODUCTORY

ANY attempt to give an account of the effect on British Life Assurance of the European War, 1914 to 1918, will gain in clearness if prefaced by a short sketch of the previous history of the business.

That history, as possible material for statistical study, begins with the Life Assurance Companies Act 1870 (33 & 34 Vict., c. 61). Prior thereto its records, scattered and unstandardized, do not lend themselves to any kind of systematic exposition. It had for about a century earlier made gradual progress, but had attained no recognized status as a national institution ; and during the years immediately preceding 1870 had suffered in reputation on account of serious failures, notably those of the 'Albert' and 'European' Companies, which were in reality groups of smaller Companies amalgamated under obscure and unsatisfactory conditions. The situation evidently called for vigorous treatment and legislative regulation, and hence came into existence the Act above mentioned. It was really an 'agreed measure', prominent actuaries of the day being taken into consultation by the Government as to its principles and drafting.

Its principles, as described by a phrase which has grown proverbial among actuaries, were 'freedom and publicity'. In other words, while abstaining from minute regulations as to the conduct of the business (such for instance as obtain in the United States), it fixed definite periods for valuations, and prescribed detailed forms in which their processes and results, and the classified records of business on the books from time to time, had to be recorded. It also dealt with the chief cause of the troubles which had called it into being, by providing for full publicity, consent of policy-holders and shareholders, and legal sanction by the Courts, in cases of transfer or amalgamation of Life Assurance Companies.

The statistics collected under these provisions take the shape of returns to the Board of Trade which are published annually. Revenue accounts and balance sheets are of course also included.

As these Board of Trade Returns constitute the official material for study of Life assurance progress, and as constant

reference to them will be necessary in the pages which follow, it will be useful here to explain the working of the system, so as to show with what degree of exactness it reveals the facts from time to time.

It should here be mentioned that the Act of 1870, above referred to, was in 1909 replaced by the Assurance Companies Act (9 Edward VII, c. 49). That measure introduced a few differences of detail as regards the Life assurance business, which are unimportant for the present purpose; but its chief object was to include within the scope of insurance legislation Fire, Accident, Employers' Liability, and Bond Investment insurance, with none of which the present study is concerned.

Each Company is required to lodge the prescribed statements within an interval (originally of nine months, but since 1st July 1910 of six months) from the close of its financial year. The Board of Trade publishes in a volume issued early in each year the whole of the statements received by it in the preceding year; and as most of the Companies close their financial year on 31st December, it follows that each volume, speaking generally, records the figures of the calendar year two years earlier than that of publication. Thus, the volume published in 1920 would contain the statements lodged in 1919, and these would give the facts for 1918. If every Company's financial year were coincident with the calendar year this would be exactly true. As a matter of fact there are a few exceptions; but for comparative purposes this is not important, and in such statistical statements as will occur hereafter it will be assumed that the volume published in any calendar year shows the results for the last calendar year but one, and that is the date which will appear in those statements. This is really the only practicable method, and for the purpose in view it is adequate.

About ten years after the publication of the Board of Trade Returns began, there were added each year some very useful summaries of their results, showing the totals for all Companies of the various items in the revenue accounts and balance sheets. Pressure of work and depletion of staff made it necessary to suspend these during the war years, but they have recently been revived in a modified form; and it is much to be hoped

that opportunity may be found to return to their full original form later. There was also a summary of the number and amount of policies in force. These were taken from the valuation returns of the Companies. Here occurs a similar difficulty to that above described in connexion with the individual Companies' dates of closing the financial year. The majority of British Companies make actuarial valuations once in five years; some, once in three years; some, annually. It is obvious, therefore, that the summaries derived therefrom in any year, which are made up from the latest valuation returns made by each Company, cannot be precisely accurate. They must always be rather understated. Here again, however, for comparative purposes they are sufficiently indicative of the position.

Having cleared the ground by these explanations, which it is feared may have been a little tedious, but which, having thus been dealt with, need not for successive statements be repeated, it is possible to proceed with the following comparative table showing numbers and amounts of policies. For the figures at the first point after the commencement of the Act's operation no summary is available, but the result has been got by addition of the amounts shown in the individual returns. After this it is sufficient to go on to the date when the summaries begin.

Year	Ordinary Assurances		Industrial Assurances <sup>1</sup>		Annuities (immediate and deferred)	
	Number of policies	Sums assured and bonuses	Number of policies	Sums assured and bonuses	Number of contracts	Amount per annum
		£		£		£
1873	664,254	297,425,350	1,090,978	8,092,034	11,818	497,031
1888	963,522	442,436,266	9,412,991	85,920,639	21,009	871,017
1893	1,291,148	500,006,061	13,324,778	128,064,110	26,506	1,127,904
1898	1,759,606	600,590,713	17,857,134	172,649,457	37,024	1,748,372
1903	2,234,565	686,328,174	23,870,937	234,217,606	52,651	2,321,071
1908	2,746,202	767,644,459	28,541,525	285,807,599	62,333	2,758,022
1913	3,179,494	854,982,788	37,556,248	428,690,925	80,946	3,181,933

<sup>1</sup> Policies, the premiums on which are received at intervals of less than two months by means of collectors. As the Table shows, they are of much smaller average amount than the 'Ordinary' policies.

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<sup>1</sup> Policies, the premiums on which are received at intervals of less than two months by means of collectors. As the Table shows, they are of much smaller average amount than the 'Ordinary' policies.

The final year in the table is the last complete one before the war. (It is explained in the summary for 1913, as regards the sums assured by Industrial policies, that the higher rate of increase is caused by the maximum sums assured, in any event, under the contracts, being included for the first time.)

This table is instructive as showing the continuous steady advance of Life assurance throughout the community in the period following its coming under the influence of special legislation. Taking its place as a feature of national life throughout a time of steady and increasing national prosperity, it made good as a powerful and growing influence in the financial development of the country. Meanwhile also it showed continually a wider power of adaptation to the public needs. A striking instance of this is the growth of endowment assurance,<sup>1</sup> which, beginning the period with sums assured of £6,522,546 or 2.2 per cent. of the existing total, ended it with sums assured of £320,616,905 or 37.5 per cent. thereof. Life assurance had in fact become during the forty-four years since 1870 a thoroughly organized and keenly progressive industry, constantly alive to opportunities of expansion in new directions, and ready at all points to meet the popular demand.

It has been said that this progress must not too readily be ascribed in its entirety to the advent of special legislation, and that much of it would probably have occurred in any case as the result of general conditions. There is doubtless truth in this, and the argument 'post hoc, propter hoc' cannot be applied to the Act of 1870 and the development of business without some qualification; but it may certainly be maintained, especially in view of the circumstances in which the Act came into being, that the public confidence engendered by the knowledge of its existence, and the effective check it gave to some flagrant abuses, were dominating factors in the subsequent history of British Life assurance.

It was, then, upon this successful activity and resultant prosperity that there came in the summer of 1914 the sudden and unforeseen shock which was to subject the business to the severest strain it had known in the course of its existence.

<sup>1</sup> Ordinary section.

## II. FIRST EFFECTS OF THE WAR

MUCH might be said about the unprecedented experiences of the first few weeks after war was declared, which need not here be set down, as they were common to all the business world. The sudden advent of a 10 per cent. bank rate, and the prolongation by two days of the bank holiday, the consequent bewilderment approaching nearly to panic ; these things were fortunately soon over. Their chief effect upon the Life assurance offices was a reluctance to part with money if they could possibly avoid it, even through the ordinary channels of surrender values or policy loans. Very quickly, however, what may be called the sensational disturbance passed away. With the reduction of the bank rate to what, though high, was no longer an emergency figure, and the resumption of regular habits, the financial world settled down again to an ordered procedure under conditions which, while severe, could at least be methodical and practicable. The sudden depletion of staffs, also, was a general experience ; and, inconvenient as it of course was, had no special feature about it distinguishing one class of business from another.

It is therefore to questions specially affecting Life assurance that attention must be directed, and these were serious and troublesome enough. Action was imperative and admitted of no delay.

Upon two bodies much labour and responsibility fell at once and continued throughout the course of the war : the English Life Offices' Association (meeting in London) and the Associated Scottish Life Offices (meeting in Edinburgh).

Membership of these bodies is voluntary, so far as Life Assurance Companies are concerned, but it is general. Each Company belonging to either is entitled to send a representative (generally the chief Life assurance officer) to its periodical meetings, at which all topics of current interest to the business are considered and discussed. Decisions thereon, which are advisory but not compulsory, are communicated to each associated Company. It is difficult to over-estimate the value

of these arrangements during the war period. Had nothing of the kind existed something equivalent would certainly have had to be improvised.

The most pressing question for early settlement was that of the extra premiums to be charged for war risk. Here, for most of the Ordinary (as distinguished from Industrial) Companies, the problem was settled in advance so far as a large number (probably the majority) of their policy-holders were concerned. The reason is an interesting one, as showing how little such a catastrophe as the late war had been considered among practical possibilities.

In the early days of Life assurance every policy was subject as a matter of course to conditions, providing that risks of war or foreign residence, should they emerge, were to be subject to an extra premium to be determined by the Company. About forty years ago, however, in times of rapidly expanding business, increased public demand, and keen competition, it was felt that such limitations, to meet contingencies which in most cases were little likely to arise, had upon the ordinary assurer a hampering and irritating effect, out of proportion to what was likely to be their practical value. Gradually what was known as the 'free and unconditional' policy came into being. To the proposal forms were added inquiries whether the intending assurer was in the Army or Navy, or had any intention of joining either, or of going or residing beyond the usual sphere of temperate climatic conditions. If these questions were answered in the negative an unconditional policy was given.

There was yet a further and bolder development along similar lines. It occurred to some Companies which had considered the subject of Army and Navy risks that it might be feasible to commute these for a fixed uniform annual payment of moderate amount to endure throughout the currency of a policy. Such schemes came into being and had substantial success. The pioneers on that path soon had followers, and had the outbreak of war been delayed a few years longer it seems not improbable that the unconditional military or naval policy at a fixed addition to the annual premium of about



12s. 6d. to 15s. 0d. per £100 assured would have been as familiar in practice as the unconditional civilian policy at the ordinary rate.

Confronted with this state of things, the Companies had to make up their minds as to a course of action. There were two classes of contract left upon which a decision had to be made; the old 'civilian' policies which were subject to restrictive conditions, and the policies on the lives of men in the Army or Navy who paid the ordinary rate of premium, subject to such extra premium as the Company might impose in the event of active service. The question concerning the first of these classes was less serious from the fact that a large number of its members were in 1914 beyond the age for military service; and the course of action decided upon was that of facing the situation boldly and dispensing with extra premiums on all civilian lives, including of course Territorials and all volunteers. In sum, it may be said that no one, not already in the Army or Navy, who joined the colours, was charged any extra premium. The case of soldiers and sailors liable for active service was justly felt to be in a different category, and one for which extra premiums might be fairly charged.

The Industrial Companies were in a different position with regard to their existing policies, for the principle of issuing unconditional contracts to civilians had not been applied to them; and they were entitled to charge extra premiums to their assured generally. The question was a serious one, for in the fervour of recruiting enthusiasm which prevailed throughout the country it was certain that hundreds of thousands of their policy-holders would soon be in the war area, and in it as private soldiers on whom would fall most severely the brunt of battle. They did not hesitate, however, and a memorandum from the Admiralty and War Office issued in November 1914 contained the following announcement:

'The association of Industrial Assurance Companies and Collecting Friendly Societies have decided that for the present no extra premium shall be charged upon policies issued up to and including 4th August 1914 on the lives of any persons engaged in any capacity with His Majesty's Forces during the present War.'

It is a matter for congratulation, and a tribute to the patriotic spirit of the Companies, that such facts as these have to be recorded; and this applies especially to Industrial Assurance, where possible commitments were so heavy and powers to have acted otherwise so extensive.

The rates of extra premium originally fixed by the Ordinary Companies for assured lives actually in the Army or Navy at the outbreak of war were £5 5s. 0d. per £100 assured for any period not exceeding one year for combatants, and £3 3s. 0d. on like terms for non-combatants. The Navy for this purpose were taken as all being combatants. For entrants into assurance after the outbreak of war £7 7s. 0d. and £5 5s. 0d. instead of £5 5s. 0d. and £3 3s. 0d. respectively. For members of the Royal Army Medical Corps and for army chaplains extra premium less by £2 2s. 0d. per £100 assured. All home service was free of extra. Naval volunteers were free, but £7 7s. 0d. per £100 assured was the extra for new entrants (i. e. assurers after outbreak of war) if afloat.

There are further provisions of a minor character, but the list need not be extended, nor need it as a whole occupy much attention, considering to how comparatively small a number of the assured lives engaged in war the figures applied. Rates of this kind make no pretension to be anything but empirical, and are sharply bounded on the upward side by what it is possible to ask. As hostilities developed it became tragically clear that such charges, or any others which could reasonably be made, were wholly inadequate to the risk run. This was acknowledged so early as December 1914, when the rates fixed for officers proposing fresh assurances were rescinded, and the matter left to the individual Companies, 'on the ground of the inadequacy of the extra premiums in face of the experience of the Offices since the war began'. Similarly, in July 1915, when the war was nearing the end of its first year and the question arose as to the rate at which the extra premium should be fixed on renewal, the Associations advised the Companies to renew on the same terms as originally fixed, as it seemed to be officially considered (i. e. by the Military Authorities) that the charge of

an extra involved an undertaking to renew it on the same terms; and as in any case 'it is the general impression that no extra which could be charged in practice would cover the war risk'.

The entire amount received by the Companies for war extras was insignificant as compared with the losses incurred; and if wars are to continue, increasing their lethal powers at the rate threatened by our scientists, it is impossible to envy the task of those who will have to fix such charges in the future.

There is one important event of the opening days of the war which is of a different kind, and can best be dealt with in a separate chapter.

### III. THE COURTS (EMERGENCY POWERS) ACT, 1914

(4 & 5 George 5, C. 78.)

THIS measure was introduced to Parliament on 26th August 1914, and read a second and third time and passed on the 31st of that month. The Act is a very short one, consisting of two clauses only. The portion affecting Life assurance is sub-section (1) (b) of Clause 1, and is as follows:

'From and after the passing of this Act no person shall levy any distress, take, resume, or enter into possession of any property, exercise any right of re-entry, foreclose, realize any security (except by way of sale by a mortgagee in possession), forfeit any deposit, or *enforce the lapse of any policy of insurance to which this sub-section applies*, for the purpose of enforcing the payment or recovery of any sum of money to which this sub-section applies, or, in default of the payment or recovery of any such sum of money, except after such application to such court and such notice as may be provided for by rules or directions under this Act.'

In the Bill as originally drafted and as presented for second reading on 31st August 1914, the words italicized in the above extract had no place, and Life assurance policies did not come within its scope. In the discussion of that day the question was raised. Mr. Morell is reported in *Hansard* as having said, 'Large insurance companies are threatening and are in fact taking steps to declare these policies to be void, just as if there were no war going on'. The Attorney-General (Sir John

Simon) deprecated the insertion of any provision as to policies and said, 'You have to be careful in making provision that policies are not to lapse for non-payment of premium, in the interests of those who find it difficult to pay, lest quite unintentionally you may strike at the whole actuarial basis on which policies are issued which are held by people who do pay'. The feeling of the House, however, was in favour of legislating on the matter, and later in the evening Sir John Simon suggested the insertion of the words above italicized and also the following definition: 'This sub-section applies to life or endowment policies for an amount not exceeding twenty-five pounds, or payments equivalent thereto, the premiums in respect of which are payable at not longer than monthly intervals, and have been paid for at least the two years preceding the fourth day of August nineteen hundred and fourteen.' This limited the scope of the proposed legislation to Industrial assurance.

These suggestions were accepted by the House, and the Bill was read a second and third time and passed at that day's sitting. Thus in a few hours, and without anything worth the name of adequate discussion, a step was taken which, whether right or wrong, was fraught with important consequences and was a new departure in British Life assurance legislation.

It would be foolish, as well as ungenerous, to apply to our legislation of August 1914 the same critical standards as would be appropriate in time of peace. The conflict abroad had already, by the time the above discussion took place, developed such proportions as made its unprecedented seriousness apparent. Probably what was done in the House of Commons was largely due to two prevalent and not unnatural impressions: that the war would be of comparatively short duration, and that during its continuance there would be severe industrial distress at home. (Of the first of these there is indeed evidence in the debate itself. Mr. Lyell said, 'No one can measure the duration of the war, but if it lasts for eighteen months or two years surely it will be time enough then to lapse a policy.') Both impressions were falsified by events. The war lasted for four years and a quarter; and the need for material, which as

time went on affected nearly every branch of production, brought to industry generally great prosperity.

Now it was a wise and a just thing, as all will agree, to prevent the possibility that a man fighting for his country should, for lack of means, lose the benefit of the thrift which had led him to assure his life and make payments of premium on his policy. It was, however, neither wise nor just to make the entire burden of the cost of preventing this possibility fall upon the private enterprise which had afforded the protection that had to be preserved. The real injustice done, which was a vital one, was also unfortunately one which it seemed surprisingly difficult to explain even to able and intelligent people who were unacquainted with the principles of Life assurance. It will therefore be well to go into the matter a little more closely.

The trouble was not concerned with policies which became claims by death. In such cases the Companies could be recouped by the deduction of arrears from the sum assured. It arose from cases in which the persons assured, surviving the period of protection and receiving its benefit, should then discontinue the policies and pay no more. In such cases the cost of covering the risk for the war years would of course be irrecoverable and would be lost to the Companies, and this would be an actual money loss. It was the last point which so many were unable to see, but it follows from the very nature of Life assurance. Every life at risk, for every day of that risk, is costing the assuring Company money; and it is from the premiums which the survivors pay that the claims for those who die are met. Otherwise the whole system would be impossible. What the protection scheme meant in practice was that the Companies, having assumed these risks, and receiving nothing for them, had to provide the necessary cost themselves with no security that it would ever be recovered. The point will be clear if we suppose the same thing happening in time of peace. A policy-holder says to his Company that for a few years he will discontinue payment of premium, and meanwhile claims protection. At the end of that period he lets the policy drop. What would be the Company's position?

Further, as the scheme worked out in practice, protection of the fighting man became only one, and perhaps not the most important, of its effects. Holders of policies who never needed to leave the country, feeling themselves secure under the new legislation, would take advantage of it even though their ability to pay were quite as great as, and possibly greater than, it was before the war began. For this they could not be blamed. It was simply availing themselves of an opportunity legally given them. (The application to a Court, allowed to Companies by the Act, was no real protection. No Company could in practice avail itself of such a method of procedure.) A policy-holder, knowing his policy could not lapse and being able to afford the premium, might use it for the purpose of effecting a further policy. That this happened is matter of history, for the Chairman of the largest Industrial Assurance Company at its Annual Meeting on 2nd March 1916 said, 'We actually find that the Act discourages savings, for many persons are suspending payment of premiums under its shelter who are better able to maintain them than in ordinary times. Some of those who have suspended payment on their existing policies have even gone so far as to take out new assurances, thus securing the benefit of two policies at the expense of one.'

As Life assurance is really an association of individuals for the common good, such a state of things as we have described has the effect of penalizing the general body for the benefit of a section of its number. While, therefore, as has been said, it would be ungracious to condemn severely the passing of such an enactment at a time of intense excitement and profound national anxiety, the continuance of its enforcement is not so defensible. All the defects mentioned above soon became abundantly apparent. The patriotic action of the Industrial assurance organizations (which alone were affected by this law) in abandoning all idea of enforcing their policy war conditions, and the effective help which they rendered to the nation in other ways during the war, might have been recognized by some well-considered attempt to deal with this real grievance. It is significant that when, early in 1916, there was some

indication of a purpose to create a moratorium for premiums on life policies in the Ordinary Companies, which would have had much the same effect on them as the Courts (Emergency Powers) Act had upon the Industrial Companies, the Ordinary Companies took vigorous action, pointing out that the Act of 1914 'imposed a very heavy liability on the Industrial Offices that should without question have fallen upon the whole community', and that 'the payment of premium in all cases at risk is the fundamental basis of insurance'. The remonstrance seems to have been effectual, as the idea was abandoned.

It was provided in the Act that in the absence of any Order in Council determining or limiting its operations it should have effect during the continuance of the war and for a period of six months thereafter. The official date of termination of the war having been fixed as 31st August 1921, the Act came under the operation of the Expiring Laws Act, 1922; but on a motion in the House of Lords the portion affecting Life assurance policies was maintained in existence for another year, as certain fresh legislation respecting Industrial assurance was in prospect, under which the position created by the Act would be considered and dealt with. That legislation is now (April 1923) before Parliament. The proposed provisions in this connexion are as follows :<sup>1</sup>

' (1) The Courts (Emergency Powers) Act, 1914, shall cease to be in force so far as it relates to the enforcement of lapses of policies of insurance.

' (2) The owner of any policy to which the said Act applies shall be entitled at his option either

' (a) On payment at any time before the expiration of six months after the publication of such notice as is hereinafter mentioned of all arrears in premiums then due, to secure the maintenance of the policy ;

or

' (b) On making application in writing for the purpose at any time before the expiration of six months after the publication of such notice as aforesaid, to have a new policy issued to him of such reduced amount, or in the case of an endowment

<sup>1</sup> These provisions have now passed into law, as Section 28 of the Industrial Assurance Act, 1923 (Note of 1925).

assurance policy modified in such manner, as having regard to the amount of the arrears may be determined under regulations made by the Commissioner to be proper to give effect to the loss caused by the non-payment of the arrears.

- ' (3) Every collecting society and industrial assurance company shall within three months after the passing of this Act publish in such manner as the Commissioner may approve, notice of the rights under this section of the owners of policies to which the said Act applies.
- ' (4) Where the person whose life is assured under any such policy has died before the passing of this Act or within nine months thereafter and the option heretofore conferred has not been exercised before his death, the society or company on application being made for the purpose within two years after the passing of this Act shall be liable to pay to the person entitled to receive the sum assured under the policy the amount thereof after deducting the arrears of premiums due at the date of death.'

The 'Commissioner' is to be the Chief Registrar of Friendly Societies.

It will be noticed that 'arrears of premiums' are provided for throughout without any mention of interest thereon. The amount involved is probably not of great importance, but is another instance of the curious indifference to the essential principles of Life assurance evident throughout this legislation.

#### IV. HELP FOR THE NATION IN MEN AND MONEY

IN dealing with the eager enthusiasm among men of military age to come to the help of the country in its need, this must be acknowledged as another of the subjects which is in no way peculiar to any one industry. None the less, it is a matter for justifiable pride to be able at least to show that the business now under review held its own and did its part with the best; that it was neither defaulter nor laggard in the hour of crisis.

It is not possible to give figures in this connexion for Life assurance alone, because so many of the large contributors to the total are 'mixed Companies', that is to say Companies which transact Fire, Accident, and other trading branches of insurance business as well as Life assurance. There are only available



general totals applying to all the insurance Companies. Some do no Life business at all ; while those who do it in addition to other classes of insurance have officials, such as accountants and others, whose work is concerned with all departments of the institution. Figures for the whole business appear in a very interesting paper by Mr. Crichton Slagg, read before the Insurance Institute of London on 19th March 1923. He there states that out of 21,822 men of military age 19,356 served, of whom 2,526 fell and 1,172 gained distinctions. It will be fair to assume that the various branches of the business contributed to the total in like proportions, which would mean that 88 per cent. of the Life assurance employees responded to the national call. Taking into account the importance of the business of Life assurance to the country, and its rather complex nature, the record must be considered a most honourable one. If operations were to be carried on at all by the Companies, it was necessary for a certain irreducible minimum of expert assistants to remain at their posts, and allowance has also to be made for the proportion of volunteers found physically ineligible. The call to the colours was obeyed with ready zeal ; and those who had to stay at home took up, voluntarily, very valuable service in receiving convoys of wounded, in anti-aircraft service, special constabulary, and other indispensable help, often after severely prolonged hours of official work.

The Companies, on their part, treated their absent staffs with full consideration. Speaking generally, it may with confidence be said that each man throughout his absence continued to receive such payment as made him at least no loser thereby, and that for all who went positions were guaranteed on their return. Thus while enduring the strain and risk involved in active service they were at least set free from pecuniary anxiety.

As the war continued, year after year, outlasting all forecasts, demands for men grew more insistent and compliance more difficult, and the introduction of conscription intensified the difficulty. By that time so large had been the enlistment on voluntary lines that there were comparatively few cases

left. These, however, were the most troublesome to deal with, especially in view of the extension of the age limit; as the question was generally one of experienced and responsible officials with whose services it was not easy for the Companies to dispense. In these circumstances a very important help, both to the Government and the Companies, was the co-operation of the Military Tribunals with representatives of the business. The London Tribunal was in touch with a most useful and thoroughly representative body, appointed for the purpose, known as the 'Insurance Advisory Committee', and arrangements for conference on similar lines existed in appropriate centres throughout England and Scotland. The mutual understanding thus fostered removed all difficulties. The Companies did not desire to keep back one man who could possibly be spared, and the Military Authorities recognized the position as concerned any one who was really indispensable. The same arrangements existed during the difficult period of demobilization, and most satisfactorily contributed towards smooth and friendly working.

In dealing with the subject of the money help given to the nation by the Companies during the war, it is necessary to begin with an explanation. It is not possible to earmark the exact part of that help which came from Life assurance funds. The reason is that the 'mixed Companies', which transact business in the trading branches of insurance as well as in the life department, do not all in their Board of Trade Returns submit a balance sheet which shows assets specifically allotted to each department. The Assurance Companies Act, while providing that the funds for each class of business shall be applied to the use of that class only (and requiring an annual certificate to that effect) does not stipulate for such distinction in the balance sheet. Some Companies make it, but others do not. When, therefore, reference is made here, or in subsequent chapters, to the assets of the Companies, these are the total assets of those which transact Life assurance business only plus those which transact in addition Fire, Accident, Employers' Liability, Marine, or other trading insurance. The point should

be borne in mind, but for such purposes as the figures here answer it is of minor importance, as the life funds throughout constitute the dominating factor. On a rough estimate, made as exactly as available figures permit, of the results of the year 1920, it appears that the assets of the mixed Companies specifically applicable to their trading departments are something under 20 per cent. of the entire assets of the Companies transacting Life assurance, arrived at as above explained.

The financial assistance rendered during the war may be classified thus :

- (1) Support of foreign exchanges.
- (2) Subscription to War Loan issues:
- (3) Assistance in the War Savings Certificates movement.
- (4) Donations to Red Cross and similar funds.

(1) In the midst of the dark outlook for British investors which falling values on every hands were causing, from the declaration of war onwards, there began after a few months to be signs of encouragement in one important quarter, springing though they did out of the growing national needs. When the war turned all British industry for the time being out of its natural channels, and so reduced the nation's capacity for export, and simultaneously made the country an importer of war material on a huge scale from the United States, it was inevitable that the value of the British currency there should steadily fall. By July 1915 the normal exchange rate of 4.86 dollars to the pound sterling had fallen to 4.77. American dollar securities were of course largely held in this country, and among the substantial holders were the Insurance Companies. When everything else was showing a loss, here was an opportunity of securing a profit on book values. Sales by the Companies began. National action began also by an instruction from the Treasury to the Bank of England to buy dollar securities in London and send them to New York for sale. So the matter rested for four or five months, when it became clear that these measures were not drastic enough, the exchange having at one time fallen so low as 4.51. In December 1915 the well-known

circular was issued to Insurance and Trust Companies, and a week or two later to the public generally, calling for deposits with the Treasury of American securities which the Treasury would sell 'at prices based on current New York Stock Exchange quotations, the sterling price to be calculated at the exchange of the day'; or 'receive on deposit for two years' on the understanding that the 'interest received on such securities would be paid to the depositor together with an additional payment at the rate of  $\frac{1}{2}$  per cent. per annum on the nominal amount of the security'. In the early days of the scheme selling was the chief operation; but later the deposit policy, for collateral security on loans which it was necessary to raise, was further pursued, and a much wider range of securities asked for, including South American, Egyptian, Danish, Dutch, Norwegian, Swedish, and Swiss descriptions, and Home Railway Debentures. The response throughout the country was satisfactory, and enabled the Treasury to maintain the dollar exchange, until the close of operations in 1919, at 'a practically uniform rate of  $\$4.76\frac{7}{16}$ '.

The exact amount of the help given by the Insurance Companies to this enterprise cannot be determined, but it may be set down approximately at about £55,000,000 (converting the various currencies into sterling at the normal rates of exchange).

(2) The history of the raising of money for war expenditure during the years 1914 to 1919 is that of an unprecedented period in the record of national finance. Time after time, as the struggle prolonged itself beyond all expectation, came the insistent demands which were to raise the National Debt from something under seven hundred to nearly eight thousand millions sterling. The whole resources of advertisement were exploited to the utmost. Every source of wealth was scrutinized, and naturally the Insurance Companies attracted their full share of attention. It may safely be said, for whatever gratification it may afford, that never had this branch of the country's enterprise attracted such anxious official notice. The representatives of the business were from time to time called into collective consultation with the Chancellor of the

Exchequer. They fully recognized their share of the national responsibility ; and although as years advanced the successive appeals presented greater difficulty, corresponding efforts were made and an adequate result was secured. One incident perhaps deserves mention. At an advanced period of the general effort, when difficulties were at their greatest, suggestions appeared in the public press (not in any way official) that the Companies might render service by advances to policy-holders on their policies in order to enable the recipients in their turn to subscribe to War Loan issues. It was a well-meant proposal, and one not unnatural from those unacquainted with the real position ; but it had to be pointed out on behalf of the Companies that this would not really help matters, as the direct Government appeals to them could only be met out of assets which included the money entrusted to them by their policy-holders ; that they could not lend this money twice over ; and that the only results would be (assuming as was the case that they were already doing their utmost in the larger direction) that they would themselves have to borrow from their bankers should any such plan on a large scale be adopted.

In this connexion may be mentioned an ingenious scheme which resulted in a considerable accession of business to many Companies which adopted it. Policies were issued, known as ' War Bond Policies '. These were endowment assurances, the term of which was concurrent with that of specific War Bond issues. The sum assured was payable not in money, but in War Bonds, which the Company undertook to buy and to hold earmarked for the purpose of meeting the claims as they fell due. The scheme was of course open to the criticism that it might convey to the policy-holder an impression that he was thus helping the country more than was really the case ; as the immediate help he gave was limited to the first premium paid, and beyond that the Companies would have to put up the remaining cash to buy the bonds, which they could have subscribed in any event. The idea, however, was a popular one, and attracted large numbers of the public. So long as it did not deter them from the greater effort necessary to buy

Bonds themselves (and of that there can of course be no evidence) it took its part, and that a substantial one, with the other agencies which were at work to achieve the general result.

The total amount subscribed by the Insurance Companies cannot be exactly given, but it may be approximately estimated from the following figures :

On the Board of Trade Returns for the year 1913, the Companies appear as holding in British Government Securities £5,314,281, being 1·002 per cent. of their total assets. In 1920 the corresponding figure is £234,407,337, being 31·9 per cent. of their total assets.

These figures refer to all Companies, established in the United Kingdom, transacting Life assurance business.

The Companies also from time to time subscribed substantially to War Loan issues of the Allied nations.

(3) The Government took occasion, in connexion with such of its efforts to raise money as were likely to appeal specially to the mass of the community, to avail itself, for canvassing purposes, of the collecting machinery which existed throughout the United Kingdom in connexion with Industrial assurance. This was especially valuable in the case of War Savings Certificates. The features of that great and successful experiment, bringing within the reach of people of small means the power to help the nation financially, are well known ; as is also its great success. The Industrial Companies were approached in the matter, as their organization for coming into touch with the people on such a subject was eminently suitable for the purpose. They willingly responded, and there can be no doubt at all that the help so given was most valuable and effective. Their officers, well known to their assured and in constant communication with them, could render more effective service than could be secured by mere public advertisement. This was of course not by any means the only personal mode adopted for achieving the desired end. An army of devoted voluntary workers was in the field, addressing audiences and forming associations. None the less, it is certain that the Companies' collectors were of very great assistance in promoting the success both of

War Bonds and War Savings Certificates. Active encouragement was also given to the formation of War Savings Certificate schemes among the insurance office staffs, financial help being given to make them attractive and easy in working; while as regards War Bonds, the Companies on the suggestion of Sir R. Kindersley accompanied each cheque in payment of a claim under a life policy with a circular advising investment of the amount in that security.

(4) Appeals on behalf of the Red Cross Fund, and kindred agencies for alleviating the sufferings of those engaged in the war, were frequent, and became more urgent as hostilities increased in duration and severity. They were generously met by the insurance offices, both for British soldiers and those of the Allies, and substantial help was thus given.

In these four directions especially, then, the Insurance Companies may fairly claim to have taken their share in the nation's financial efforts. There is no need to exaggerate this, and it of course stands in an entirely different category from the supply of men for the battle-fields. As a matter of fact the pledging of securities and the subscriptions to War Loans were advantageous to the Companies. It was a case in which national duty coincided with individual interest. Sales of American securities produced a profit, or at least reduced a loss. Deposit of securities as collateral security brought  $\frac{1}{2}$  per cent. additional interest (in the case of Home Railway Stocks 10 per cent. of the normal rate took the place of this). The War Loans offered good rates of interest, increasing as each fresh issue took place. On the whole this side of the financial war experience presents a certain offset to the general effect in the contrary direction.

## V. NEW BUSINESS

ONE of the earliest shown of the adverse effects of the war on British Life assurance was the falling off in the annual new business transacted.

The table opposite is taken from the Board of Trade Returns of the Companies established within the United Kingdom (official summary).

It is of course quite clear that with the opening of war new business must fall heavily. The young manhood of the nation was practically out of account, so far as new Life assurance was concerned. The question was not one concerning only those who had actually volunteered. It was not practicable to assure any life of military age, whether actually yet in the Army or not. It was of no avail that a man should seem protected from active service on the ground of being employed in an 'indispensable' home industry. All such barriers might be swept away by the increasing growth of the nation's needs in the field. Month by month from the beginning of hostilities it became clearer that the dimensions of the conflict were likely to exceed in gravity anything within the country's experience. Conscription was very soon in men's minds, and looming ahead as more than a possibility. The Companies, having already freely undertaken such great risks for their existing policy-holders, could not—if their existence was to be preserved at all—open their doors on like terms to new-comers. It may indeed be said that what had been known as 'the assuring class' had for that purpose disappeared. No extra premium which a young man could afford would be adequate for the risk run.

But beyond all this, men were in no mood to think of such things. The canvasser's work, so vital an element in procurement of business, might in most cases as well have been given up for any result it brought. Looking at the figures as shown opposite, the wonder will not be that so much was taken, but that so much remained.

It will be interesting to study the table given opposite in a little more detail. Looking at the Ordinary business within



Year	Ordinary business								Industrial business	
	Within the United Kingdom				Outside the United Kingdom				All within the United Kingdom	
	Number of policies	Sums assured £	Yearly premiums £	Number of policies	Sums assured £	Yearly premiums £	Number of policies	Sums assured £	Number of policies	Sums assured £
1911	245,137	49,769,241	1,983,241	19,886	8,231,890	349,840	19,886	8,231,890	7,907,177	76,506,272
1912	261,334	52,570,773	2,139,999	19,523	8,259,695	354,336	19,523	8,259,695	7,719,156	75,393,103
1913	304,031	58,990,257	2,450,656	20,423	8,628,858	363,822	20,423	8,628,858	8,232,899	94,194,291
1914	262,673	52,951,043	2,261,972	17,031	7,127,015	285,688	17,031	7,127,015	7,501,201	87,486,107
1915	243,197	44,032,252	2,090,103	9,892	4,344,278	173,057	9,892	4,344,278	6,668,443	81,739,360
1916	203,461	43,905,239	2,078,086	9,579	4,282,273	176,904	9,579	4,282,273	5,686,509	70,285,625
1917	256,286	51,821,489	2,811,018	9,040	4,416,733	181,358	9,040	4,416,733	5,284,746	68,196,461
1918	297,350	67,912,813	4,123,597	10,126	5,422,807	303,873	10,126	5,422,807	5,335,250	74,796,000
1919	521,201	121,124,137	6,138,328	18,023	10,330,226	445,938	18,023	10,330,226	6,525,388	106,079,745
1920	541,265	133,689,055	6,567,026	20,503	12,938,419	543,135	20,503	12,938,419	6,084,072	112,842,005

(The yearly premiums on Industrial business are not summarized.)

the United Kingdom, we see from 1911 to 1913 the usual steady rate of progress. In 1914, though the year only includes five months of war, there comes a sharp drop, nearly to the level of 1912. (The reference is to sums assured.) The 1915 record falls heavily, and a further drop in 1916 brings the figures to their lowest point. The year 1917 shows an increase, and a substantial one, but is still below 1912. Then in the armistice year comes a large increase, producing a record figure; but this in its turn is surprisingly surpassed by 1919, the first year of peace, which, nearly doubling its predecessor, gives the highest results, by far, ever achieved in the history of the business; and 1920, the last of the record, surpasses 1919. Such resilience is rather remarkable, and very encouraging.

The 'business outside the United Kingdom' consists largely of policies effected in the British possessions (chiefly Canada, South Africa, and India) but embraces also operations in Europe, including what became enemy countries. It is altogether on a smaller scale than the home business, and less important to the general total. It shows, as might be expected, a much heavier proportionate drop during the war years, but shares fully in the recovery thereafter; and, like the home business, exhibits record figures for 1920 and 1921. This is probably attributable chiefly to the colonial section.

The Industrial business declines steadily till 1917, reaching then its lowest point, and in its turn shows a recovery thereafter, though not in such a proportion as the Ordinary results. The number of policies effected is still, at the end of the period, substantially below the record of pre-war years.

Another aspect of the table is shown in the following statement, which gives for each year the average sum assured per policy, and the average rate of annual premium per £100 assured. This is not an exact statement, which is not possible, as some of the policies each year are issued at single premiums. This item, however, is not large and fairly constant, and the value of the statement for comparative purposes is not materially affected thereby.

Year	Ordinary business within United Kingdom		Ordinary business outside United Kingdom		Industrial business (all within United Kingdom)
	Average sum assured per policy	Average premium per £100 assured	Average sum assured per policy	Average premium per £100 assured	Average sum assured per policy
1911	£ 203	£ s. d. 3 19 8	£ 414	£ s. d. 4 5 0	£ 9 67
1912	201	4 1 5	428	4 7 7	9.77
1913	194	4 3 1	423	4 4 4	11.44
1914	202	4 5 5	419	4 0 2	11.67
1915	181	4 14 11	439	3 19 8	12.26
1916	216	4 14 6	447	4 2 7	12.36
1917	202	5 8 6	489	4 2 2	12.91
1918	228	6 1 5	536	5 13 4	14.02
1919	231	5 1 5	573	4 6 4	16.26
1920	247	4 18 3	631	4 4 0	16.79

It is not very easy, or very safe, to make many definite conclusions from a statement of this kind; but a few inferences may be mentioned as probable and interesting.

In the Ordinary business, home section, the fall in the average amount of policy to a minimum in 1915 is undoubtedly a war result. The rise in the cost of living was beginning to be felt, and it had not by that time been compensated, as it was to such a large extent later, by war bonuses and a general advance in wages and salaries. Further, the large War Loan issue of that year, and the commencement along with it of the campaign of appeal to the whole nation to put its savings into such channels, had a deterrent effect in other directions. It is significant also that along with this decrease in the average policy the average rate of premium should rise, revealing as that does the exodus of the young, and the consequent restriction of the possible assurance field to those of higher age. In the remaining war years the rise in average premium is very marked, while the average amount assured per head also shows recovery. There can be little doubt that this double movement is largely due to the 'War Bond Policy' movement mentioned

in the last chapter. This made a wide appeal; and the greater proportionate rise in average premium than in average sum assured may be accounted for by the fact that policies issued under such schemes naturally took the form of endowment assurances, many of which were for comparatively short terms, the rates of premium being of course correspondingly high. The two 'bumper' years which close the record show a community freed from the acute strain of the past, resuming its ordinary activities, and sensible that with the fallen value of money the family provision made by a life policy should be of larger amount. Men returning from the war, and hitherto unable to assure, were doing so; and the increasing popularity of endowment assurance helped to keep the average premium rate at a high level. What may be called the 'held over' amount of Life assurance, effected after the war instead of during its course, will of course in time be exhausted, and some reaction from the exceptionally high results of 1919 and 1920 is probable; but the permanent average will in all likelihood remain higher than in pre-war days.

The business outside the United Kingdom does not need much comment from the standpoint of these averages. The level of policy is higher throughout—but this will be no surprise to those who have experience of colonial business. The standard of family provision by Life assurance is higher there than here, as is probably that of life generally. The record as a whole shows less variation than the home one. The closing increase, after the war, and the advance in the average sum assured, are rather greater proportionally than those for the United Kingdom. On the whole the war does not seem to have affected appreciably the ratios for this section of business.

The Industrial business shows a record of steady increase in the average policy along the whole line, which has been maintained through the war years, even when the total business done reached its lowest point. Higher wages have doubtless much to do with this, but it is in any case a gratifying record.

## VI. ANNUITIES

THE subject of the life annuity business done by the Companies during the war period is one which presents features of considerable interest.

Under the Act of 10 George IV, c. 24, the Government was empowered to grant life annuities for the purpose of reducing the National Debt. The price charged for these was, when received, to be applied to the purchase and cancelment of Government Stock. The rates were to vary according to the market price of Consolidated Annuities. By this means Government Stock was practically redeemed at the price of the day, in exchange for a payment which would terminate in a limited number of years; that is to say, on the death of an annuitant.

A Life Assurance Company, granting an annuity, stood in quite another position. Its entry into such a contract, the ultimate duration of which could not be foreseen, had to be based on such a rate of interest as it might reasonably look forward to receiving, on an average, throughout the annuitant's life; and one, moreover, which would be at or near the level of the rate assumed in its periodical valuations. The object of the Government, and that of a life office, in taking up such business, were entirely different.

It would of course be impossible to carry out the Government scheme exactly, in view of the constantly varying price of Consols, and the official tables have therefore taken the form of a schedule, giving the cost of annuities at successive ages in separate columns according to prices of that stock. The tables in use in 1914 gave five distinct sets of rates, for stock prices ranging from 83, with £4 intervals, to '95 or over'. Consols throughout that year never reached 80 but the tables did not go lower than 83, as that meant a 3 per cent. interest basis for the calculations. These terms had continued since 1912.

Upon such bases, the Companies had no difficulty in competing for the business and securing the larger share of it. In the year 1914 they received as purchase money for annuities

within the United Kingdom £1,958,860, the Government receiving £609,214. At the outbreak of the war, Consols stood at  $70\frac{3}{16}$ . The Stock Exchange was then closed till the end of the year. It opened at the beginning of 1915 with 'controlled prices', Consols standing at  $68\frac{7}{16}$ . This gradually fell till September 1915, when the average price was  $66\frac{1}{2}$ . The Government then took action in the matter of annuity values, and a supplementary table was published giving rates payable 'when the average price of  $2\frac{1}{2}$  per cent. Consolidated Stock is under £66 10s. 0d.' This meant calculation on a  $3\frac{3}{4}$  interest basis. For the first time the British offices felt the Government a formidable competitor. Comparatively few Companies could quote like rates. In November 1915 Stock Exchange prices were decontrolled, and Consols rapidly fell. The Government, however, did not again intervene until January 1918, when the Stock stood at  $54\frac{3}{4}$ . A fresh table then appeared, offering rates down to a limit of Consol price £55 10s. 0d. (a  $4\frac{1}{2}$  per cent. interest basis). In July 1920 Consols were at 47; and a further table, following the fall as far as £50, appeared. The latest table, which is now in use, appeared in February 1922. It does not differ substantially from that of 1920, but is slightly less liberal in its terms, probably because of some slightly increased loading for expenses.

The following table shows the effects of these changes, as between Life Assurance Companies and the Government. (The second column is confined to annuities issued within the United Kingdom. The amount received for annuities elsewhere is small, and obviously outside the purposes of the comparison.)

Year	(a) Amount received for life annuities by the Government	(b) Amount received for life annuities by the British Life Assurance Companies	Ratio per cent. of (a) to (b)
	£	£	
1914	652,979	1,958,860	33.3
1915	481,965	1,392,748	34.6
1916	503,304	919,271	54.7
1917	369,145	1,173,954	31.4
1918	796,134	1,517,041	52.5
1919	847,083	2,128,556	39.8
1920	773,165	1,832,711	42.2

This shows the substantial increase in the proportion of annuities purchased which have gone to the Government rather than the Companies since 1914. (It should be mentioned that the above table slightly overstates the amounts received by the Government. The reason is that a small part of the annual payment for Government annuities is not in cash but by transfers of Government Stock. A portion of this each year is Consols—and they have been taken for the purposes of the table at par value, there being no other method really practicable. The amounts are relatively so small that they make no appreciable difference for comparative purposes.)

The curious drop shown in the table for the year 1917, made up by a heavily increased ratio in 1918, is probably due in part to the fact above mentioned that the Government in spite of the heavy depreciation after decontrol did not follow with any corresponding movement till 1918 had begun. If we take the whole period 1915 to 1920, and compare it with 1914, we get a ratio of Government to Companies' annuities of 42·0 per cent. against 33·3.

Assuming (what in the light of recent investigations admits of considerable doubt) that annuities at the prices currently offered are a profitable branch of Life assurance finance, it thus appears that the Companies, owing to the war, suffered a certain amount of loss in this direction. This cannot, however, be fairly regarded as a hardship. It happened in the ordinary course of the monetary policy of the country, and is fiscally justifiable. The Government in fact acted with consideration for the Companies in the deliberation of its procedure, which might easily have been more drastic.

## VII. POLICY LOANS

ONE of the best securities which Life Assurance Companies can hold is that of loans to their policy-holders on security of their policies, within the surrender value. It is good in more than one way. The security is of course perfect, and cannot depreciate. Moreover, it is a transaction which can in most cases be carried out quickly, cheaply, and without publicity. These features, working for the policy-holders' convenience, tend to attach him more closely to the Company. Further, such loans are practically certain never to be called up, and this is another distinct convenience. It is not surprising, therefore, that these transactions are popular, and constitute a prominent factor in the balance sheets of the Companies.

In the earliest days of the war, when the financial situation was obscure, and elements of something like panic were pervading the money market, there was a certain amount of timidity among the Companies about committing themselves to anything in the way of investment; and even requests for policy loans, if the amount asked were considerable, were received with some embarrassment. This feeling, however, soon passed away; but it was imperative to revise the rates of interest, especially upon new transactions. The whole subject was one of the first to come before the Life Offices' Association, and the first impulse was to advise limitation of surrender values (and consequently loan values) rather severely, and to recommend drastic action as concerned rates of interest. It must be remembered that the Companies foresaw the approach of heavy national loans, and in such circumstances the wisdom of husbanding resources in all possible ways was apparent. It was found, however, that the circumstances of individual offices differed so widely that no general rules could be laid down, and matters were left to find their own level. The result was that lending went on much as usual, but as a rule at not less than bank rate, with a minimum of 5 per cent.

It is at first sight rather curious to find that this branch of the Companies' operations decreased, rather than increased



as a result of the war. The total amount lent on policies within their surrender value by the Companies established within the United Kingdom appears in the Board of Trade Returns for 1913 as £29,077,825. The corresponding totals for 1918 are £25,787,347, and for 1920 £26,443,219. It is easier to quote figures than to interpret them, and this result is hardly what would have been expected. Some considerations may be suggested in the way of explanation. The war period, to a large part of the community, was not one of material hardship, but rather the reverse. Great numbers of policy-holders were absent from the country and their domestic affairs. The higher rates of interest charged would have a deterrent effect. The campaign in favour of economy, conducted unceasingly in the press, on the platform, and by thousands of devoted workers throughout the land, must have had some real effect. Not all the seed can have been sown among thorns, or in stony places where there was no depth of earth. At any rate the result is unquestionable; and it is a gratifying reflection that the nation comes out of the ordeal with at least this particular burden lightened rather than made heavier. After all, the primary object of Life assurance is best attained when the sum assured emerges for payment freest from encumbrance.

### VIII. EXPENSES OF MANAGEMENT

THE expenditure of a Life Assurance Company is ascertained, from the statutory revenue account rendered to the Board of Trade, by adding commissions to expenses of management, these items having to be separately given. When considering the effect of the war, it is only necessary to consider the second of them, because commission varies *pro rata* with the business done, which is dealt with in other chapters. Expenses of management include all establishment outgoings, such as salaries, pensions, rental and upkeep of premises, travelling expenses, advertising, printing, and stationery, &c. The figures given in the Board of Trade Returns for Ordinary and Industrial life business, during the years 1913 to 1920 inclusive,

with the ratio of expenses to premium income, are shown in the following table. (Here the results for premium income within and without the United Kingdom are included in one total.)

Year	Ordinary business			Industrial business		
	(a) Premium income	(b) Expenses of manage- ment	Ratio per cent. of (b) to (a)	(a) Premium income	(b) Expenses of manage- ment	Ratio per cent. of (b) to (a)
	£	£		£	£	
1913	31,490,627	2,623,501	8.3	17,291,641	3,448,816	19.9
1914	32,283,820	2,546,832	7.9	17,982,777	3,401,016	18.9
1915	32,401,486	2,500,770	7.7	18,565,276	3,297,726	17.8
1916	33,065,002	2,589,566	7.8	19,572,728	3,503,267	17.9
1917	33,290,768	2,547,280	7.6	20,958,849	3,786,801	18.1
1918	37,040,476	2,975,571	8.0	22,398,430	4,235,578	18.9
1919	41,246,118	3,358,378	8.1	25,349,822	5,256,699	20.7
1920	45,549,464	4,028,783	8.8	29,268,521	6,843,193	23.4

At first sight, with an increase in the expense ratio of only  $\frac{1}{2}$  per cent. in 1920 over 1913, the results for the Ordinary business may seem encouraging; but it must be borne in mind that the premium income has meanwhile increased by 44 per cent. The chief hope which a Life Assurance Company has of reducing its expenditure lies in this item 'Expenses of Management'. The other factor, Commission, must, broadly speaking, increase relatively to the business done. It is the kind of outlay that does not necessarily rise with the total results accomplished, which should, by virtue of that quality, reduce the ratio of outgo to income. The same premises will serve for the issue of policies for £1,000,000 as for policies amounting to £500,000. The same staff (within reasonable limits) can deal with a large business or a small one. The latter proposition must be qualified, however, by a distinction between 'indoor' and 'outdoor' officials. Procurement of business must take place, not in the office, but in the field. Vital as the necessity for Life assurance may be, men will not approach the Company's doors and offer their proposals without being sought, interviewed, and persuaded. That is a process which

requires the services of those specially qualified and trained for such work ; and they must be paid, to a certain extent, by results. This therefore is an item which cannot be said to be as static as an office rent or an establishment account. To a greater extent than might at first be supposed, expansion of business, under modern conditions, means expansion of expense. None the less, however, it is to the general and comparatively fixed items that we must look for possible economies which shall not adversely affect the business.

There is, however, abundant ground of explanation why such a result has not been shown during the period under review. In the first place came the depletion of staff by enlistment, accompanied by the arrangements mentioned in an earlier chapter for the payment of those who were absent. Then arose of course the question of how their places were to be temporarily filled. This, as is well known, was solved by the introduction, on a large scale, of women for clerical duties. Staffs which had before the war included half a dozen female members, or none at all, found themselves with a hundred. That is a development about which a good deal might be said, but the subject is not peculiar to any one industry, and therefore does not call for detailed treatment here. It might just be stated that so far as the Life Assurance Companies are concerned there seems to be a general feeling that the work required was as a whole efficiently and conscientiously done ; details of a technical kind being often acquired with a speed and carried through with an accuracy which left nothing to be desired. The present concern, however, is with its cost, which was naturally considerable. Added to this, as hostilities were prolonged, came the very serious question of the cost of living. Here again ground is touched which was common to all business enterprise. War bonuses, on a scale which increased as time went on, were added to the general burden of expenditure. In this matter it may be justly claimed for the Companies that they treated their staffs with all due consideration. Further, the cost of living reflected itself in every detail of the business. Travelling, printing, and every detail of the conduct of a large

organization, rose very heavily in price. Labour in all directions reached a standard of expense which has even yet shown little tendency to fall, and is never likely to revert to its pre-war level. The trend of the figures shown in the above table is significant. During the years of maximum strain we see a slight reduction in the expense ratios; but when the actual check of war is removed, and enterprise is getting free to flow in its former channels, the universal price-movement shows its full force, and the rates soar upwards. In the circumstances the increases of  $\frac{1}{2}$  per cent. for Ordinary and  $3\frac{1}{2}$  per cent. for Industrial business in 1920 as compared with 1913 cannot be regarded as phenomenal; but the loss they represent should be noted in all its seriousness, and the more so in view of the fact that the rise in one contributing item, the cost of labour, is likely to remain to a considerable extent permanent.

## IX. WAR MORTALITY

DIFFICULTIES at present exist in fixing with any approach to precision the amount of the loss caused to Life Assurance Companies established in the United Kingdom by the deaths in war of their assured lives. Future actuarial investigations may possibly be undertaken towards this end, though the task will be no light one. Meanwhile, however, an approximate estimate for practical purposes is possible.

The subject is dealt with in an able and interesting paper by Mr. H. Brown, B.A., F.I.A., read before the Insurance Institute of London on 20th December 1920. He there arrives, by a comparison of the recorded death claims during the five years 1914 to 1918 inclusive, at the conclusion that these were about £4,000,000 a year 'above the corresponding pre-war figure'. This is for the Ordinary business only (as distinguished from the Industrial).

In 1919 the Life Assurance Companies furnished at the request of the Peace Conference a statement of the total sum paid in war claims on policies effected in the United Kingdom, in respect of which no extra premium to cover the war risk had

been charged. This also excluded civilian deaths caused by enemy submarines at sea. The total was given (approximately) as £15,500,000.

Up to 1919 the Industrial Companies published periodically in the *Insurance Record* a statement of their war losses to date. The last total thus published amounted to £7,697,905. This, however, is included in the statement mentioned in the preceding paragraph.

There remain the losses under policies upon which extra premiums for war risk were paid, and those from submarine casualties (which cover losses arising from 'illegal' acts of the enemy—air raids, &c.).

It is not possible to fix any sums approaching an exact estimate for these items. They would of course be small as compared with the general total ; but might bring the inclusive sum up from the £15,500,000 above quoted to something in the neighbourhood of £18,000,000.

This, however, represents gross claims ; and an important reservation must be made in order to arrive at actual loss. From the nature of Life assurance business a reserve must be held against each policy. This reserve grows with the duration of the contract and constitutes the Life Assurance Fund. Every policy becoming a claim by death as a result of the war had thus a reserve standing against it in the books of the Companies ; that was cash actually held in hand, and hypothecated for its benefit. It must therefore be allowed for before the actual loss suffered (what actuaries call ' the death strain ' ) can be ascertained. Fortunately, this is given in the statement furnished by the Companies in 1919. It would obviously be comparatively small, because as a whole the contracts were for young lives and of brief duration. The net losses after allowing for this element reduced the £15,500,000 to £13,561,000. It was assumed above that the additional losses on policies paying extra premiums, and for illegal enemy action, might bring the gross £15,500,000 up to £18,000,000—an increase of £2,500,000. Reducing this, for reserves held, in the same proportion as the larger sum is reduced above, we arrive at a total net loss from

war mortality of £15,750,000. This, as already explained, must be regarded as an approximation only. It is probably understated.

The whole weight of the burden, however, is not thus indicated. There is another consideration, and an important one, to be taken into account. The combatant soldiers, in so far as they were not in the regular army when the war began, were select lives. Every one was subjected to a military medical examination. This in the case of Ordinary Life assurance was, generally speaking, a double selection, as the same test had been undergone when the policy was effected. Industrial assurers, however, had as a rule been received without examination, and there the effect was accordingly more significant. Probably as the war progressed and the call for men was heavier the medical tests tended to become less stringent, but they were always there. It is not possible to estimate the effect of this discriminating process, but neither is it possible to ignore it. A sifting did undoubtedly take place over the whole mass, and must have had some effect on that portion of it which represented assured lives. When a mixed body is thus gone through, and its best elements abstracted, the average standard in what is left must be lower than was that of the whole before the process began.

Much has been said about the less direct and later effects of the war period on the general health of the army, as likely to affect adversely the future vitality of those who served. Many who did not fall suffered serious wounds, mutilation, or shock to the nervous system, which may tend to shorten life. Of course there is truth in this, and it should not be overlooked. It is, however, an intangible element, and such effect as it may have will be spread over an indefinite future. On the whole it may be doubted whether its influence on the mortality of assured lives will be very considerable.

## X. TAXATION

THE question of war taxation, for the Life Assurance Companies, practically resolves itself into one of Income-tax.

Income-tax has been a perpetual source of controversy between the Companies and the Government, and one also of considerable litigation. It would not be relevant to the present purpose to deal with the history of these discussions and decisions, as the importance of the subject for this inquiry is of course the altered aspect of the entire question by its developments during the war. It is sufficient to state that at the opening of the period the practice laid down and followed was to charge the Companies, at the current rate of each year (which of course was the maximum standard rate) upon their interest or their profits, whichever should be the greater.

As actuarial valuation was made annually by a few Companies only, and by the remainder at quinquennial or triennial periods (in most cases quinquennial) the practice in such cases being to spread, for taxing purposes, the surplus equally over the intervening years.

The method thus described was by no means impervious to criticism, and that criticism the Companies were not slow to make; but while the tax remained at a level not much exceeding a shilling in the pound the question was hardly one of supreme importance. Its rise, however, by rapid stages to 1s. 8d., 3s., 5s., and eventually in 1918 6s. in the pound, profoundly affected the position; and what had been scarcely more than discontent became alarm.

The Government early recognized the exceptional position, and the Finance Act (No. 1) of 1915 contained the following provisions:

‘Where an assurance company carried on life assurance business in conjunction with assurance business of any other class, the life assurance business of the company shall, for the purposes of the Income Tax Acts, be treated as a separate business from any other class of business carried on by the company.’ (Section 11.)

‘Where an assurance company carrying on life assurance business

or any company whose business consists mainly in the making of investments, and the principal part of whose income is derived therefrom, claims and proves to the satisfaction of the Special Commissioners that for any income-tax year it has been charged to income-tax by deduction or otherwise, and has not been so charged in respect of its profits . . . the company shall be entitled to repayment of so much of the tax paid by it as is equal to the amount of the tax on any sums disbursed as expenses of management (including commissions) for that year.' (Section 14 (1).)

The section last mentioned adds sub-clauses which need not be quoted, as they do not substantially affect the position.

This concession with regard to expenses was a valuable one, and was duly appreciated by the Companies. It is perhaps open to objection from the standpoint of scientific finance, inasmuch as it does not attempt remedy quite in the line of the ailment, and might conceivably encourage extravagance; but after all it was a practical measure and one easily applied. It was soon evident, however, as events developed, that the situation was so serious as to make what had been done nothing but a rather feeble palliative. The following table shows the annual sums deducted from interest by way of Income-tax, appearing in the revenue accounts of the Companies as rendered to the Board of Trade. In the case of Companies transacting Industrial as well as Ordinary business, both classes are included. While the absolute accuracy of the figures cannot be guaranteed, they are sufficiently near to furnish proper ground of comparison. The last complete pre-war year (1913) is included for that purpose.

Year	Income-tax as shown in revenue accounts			
				£
1913	.	.	.	812,149
1914	.	.	.	1,223,869
1915	.	.	.	2,233,126
1916	.	.	.	3,300,843
1917	.	.	.	3,931,919
1918	.	.	.	4,473,599
1919	.	.	.	4,690,676
1920	.	.	.	4,858,738

The effect of the taxation may be seen in another way.



The Board of Trade Returns tabulate for each year, both for Ordinary and Industrial business, the Life Assurance Funds at the beginning of the year and the interest received during each year less Income-tax. By taking the mean between the fund at the beginning and end of each year (excluding the year's interest) and finding the ratio borne to that figure by the interest itself, we arrive at the rate of interest actually earned in the period.

The results are given below :

Year	Rate of interest earned on Life Assurance Funds after deduction of Income-tax	
	Ordinary Life Assurance	Industrial Life Assurance
	£ s. d.	£ s. d.
1913 . .	4 1 0	3 15 10
1914 . .	4 0 5	3 15 4
1915 . .	3 17 11	3 11 3
1916 . .	3 16 4	3 12 0
1917 . .	3 18 3	3 19 5
1918 . .	3 16 8	4 1 9
1919 . .	3 18 10	4 2 0

It is here shown that in the case of Ordinary assurance the increased tax completely neutralized any benefit derivable from the higher rates of interest obtainable during the war years, and that the position in 1919 had not recovered so far as to reach the pre-war level. In the case of Industrial assurance the effect, while of the same kind, has not been so marked or so prolonged, there being in the later years a distinct recovery. This is probably to some extent due to the large sums placed to Reserve Funds, thus diminishing the amount of the actual Life Assurance Funds as so described in the returns. The above reference to higher rates of interest during the war period may be thought to be rather discounted by the fact that a large part of the funds was absorbed by pre-war investments which could not be disturbed; but when the very large transfer of funds to war loans (as recorded in Chapter IV) is borne in

mind, this consideration is modified in importance. As a matter of fact gross rates rose considerably. Taking five large and representative companies, we have an average gross rate of interest per annum during the years 1914 to 1918 of £4 11s. 9d. per cent. per annum, as against £4 4s. 5d. per cent. per annum for the five previous years.

The chief cause of concern to the Companies, however, when the rate of Income-tax increased to six shillings in the pound, and the dark outlook ahead rendered the future uncertain and even severer taxation possible, was not mere diminution of profit but security of basis. For the first time in the history of the business taxation brought the net rate of interest realized near enough to that on which valuations were founded, and premiums computed (which varies between the limits of  $2\frac{1}{2}$  and  $3\frac{1}{2}$  per cent., most companies employing 3 per cent.), to give reason for grave uneasiness. The position was a difficult one on every side. Were not all businesses, and all persons, suffering alike? Must not the claims of the State, in its dire emergency, be paramount? The Companies were not likely to ignore such considerations as these. Their support of the War Loans, their attitude to military service for their staffs, gave sufficient evidence of that. But it was borne in upon them more and more that their business, from its very nature, was a national trust. It was not themselves, but a mass of the community, that they had to bear in mind. The very money which they were paying day by day to the families of fallen men was based on contracts the essence of which was the investment of money at a certain minimum rate. Only the security of that made such payments possible. Was there not then a sense in which, in the interests of the nation itself, they occupied in this matter a unique position that called for special treatment?

The question was not, and is not, an easy one; and there is no intention here to prejudge it. It has, however, been recently considered and dealt with at length in the following circumstances. During the course of the war the Government promised an inquiry by a Royal Commission on the whole

subject of Income-tax, so soon as time and opportunity should permit. That promise took shape in March 1919, when a competent and thoroughly representative Commission was appointed. It heard a great amount of evidence of all kinds, and completed its Report in March 1920. That Report was published later in the same year (Cmd. 615). Although a post-war inquiry, its dealing with Life assurance may certainly be included among the effects of the war on that business.

The Companies had of course ample notice of the proposed inquiry, and two Life assurance representatives were summoned as witnesses ; one from the Life Offices Association and one from the Associated Scottish Offices. There was prolonged and serious deliberation among the Companies, in both Associations, as to the instructions which should be given to these gentlemen. The President of the Institute of Actuaries was a member of the Commission.

The Companies submitted two alternative proposals through their representatives. One was that their assessment should not be on interest at all, but on profits as ascertained by actuarial valuation. The other was that interest less expenses of management (including commission) should be the basis. Both agreed that the system of assessing on interest or profits, whichever was the greater, should cease ; and also that the interest should be taxed at a rate less than the normal rate (four shillings, or four and sixpence in the pound was suggested against six shillings then prevailing) because ' the interest finally enures (in the case of mutual companies wholly, and in the case of proprietary companies mainly) to the benefit of policy-holders, the majority of whom are not liable to the full rate of tax '. These are the words of the Report, from which the above description of the proposals submitted is also taken.

The proposal to base assessment on profits only, included the plea that the profits so taxed should not include those allotted to policy-holders.

The Commissioners rejected the proposal to discontinue the present system of assessing interest or profits, whichever is

the greater. They rejected also any suggestion to tax Assurance Companies at less than the full normal rate. They recommended that if and when profits are the basis of taxation, the assessment should only be on that portion thereof 'which belongs to the proprietors or shareholders of the Company'. In the case of mutual Companies this would give place to 'the profit made on transactions other than mutual transactions'.

Having made this solitary concession the Commissioners go on rather naïvely and comfortably to remark 'in neither case is there much probability that such an alternative charge on profits would become operative'. They would not have run much risk of error if they had said that there was none.

With regard to the vital question of the security of bases of valuation the Report states that this has 'doubtless been in the minds of some speaking on behalf of the companies', 'but less prominent' there. On this excursion into metaphysics it is not necessary to express an opinion. The Commissioners' own dealing with the subject, however, is worthy of attention. 'It is conceivable', they say, 'that the stability of the relation between premiums paid and the sum assured could be affected in various other ways, for example, a marked and secular decline in the rate of interest; a great general change in mortality rates; the effect of a change in money values upon expenses such as wages, making the loading originally provided quite inadequate. It is doubtful whether in such cases it would be suggested that a change in the rate of Income-tax was an appropriate remedy.' It is indeed. The whole point of the present case, however, happens to be that it is the Income-tax which is the cause of the apprehension. If a man broke his leg by a fall in a defective staircase in an hotel, it would be an odd defence if the proprietor said, 'You might have done the same thing by a fall in the street, in which case it is doubtful whether you would have had a remedy against me'.

It is not intended for a moment to write disrespectfully of a body of distinguished men who devoted very great labour to an inquiry, their Report on which is, as a whole, a most able

and competent production ; but it is difficult to take seriously the only concession they offer the Life Assurance Companies. The general proportion of a valuation surplus taken by proprietors is one-tenth. Interest, to a Life Assurance Company, is one of the two prime and essential factors in transacting its business, as any one glancing at its annual account can at once see. The supposition that in any given period its amount should fall below a small fraction of the profit realized, is too fantastic to merit serious consideration.

It is, however, satisfactory to note that the Commissioners add, on the question of possible depletion by tax of valuation rates, 'The matter is one so bound up with the whole principles of insurance that we feel it is to a great extent outside our Terms of Reference, and that it would be more properly dealt with by a body specially designed to consider insurance as such.' This would indeed be a wise step, and it is to be hoped that it may some day be taken. As matters stand, there is no reply to the comment made by the President of the Institute of Actuaries in a Reservation to the Report : 'No answer has ever been given to the contention of the Life Offices that since the principles of taxation applied to them would, if pushed to extremity, reduce them to insolvency as a result of income taxation alone, and that since this is a state of things which could not produce similar results in the case of a private individual or of any other form of Company, it is manifestly unjust.'

Before leaving the subject of Income-tax, mention should be made of a feature which has complicated all discussions of the question with the taxing authorities. This is the allowance to policy-holders themselves of the amount paid by them for Life assurance premiums, as an abatement of the income returned for taxing purposes. This dates from as far back as 1853, and was, says Sir Josiah Stamp, 'a concession to a particular kind of thrift which it was thought desirable to encourage.' It extended originally, without limit, to policies on the life of a man or of his wife, and to deferred annuities,

but was limited to a maximum of one-sixth of the total net income. With the outbreak of war, and rising Income-tax, it became necessary to guard against undue use being made of this privilege; and the Finance Act (1) of 1915 stipulated that the premiums so allowed for must not exceed £7 per cent. per annum of the amount assured at death, and should not include any extra charge made for return of premiums. Policies were being issued at high rates, which included certain provisions for return of premium; and it was felt that artificial inflations of this kind were not fairly entitled to benefit in the relief given. The Finance Act of 1916 made all war extra premiums, whether annual or not, eligible for the relief, and freed them from both the limits, as to total income and as to percentage of sum assured, above mentioned. It also, however, for assurance effected after June 1916, limited the rate of tax allowed off premiums to 3s. in the pound; and excluded premiums on deferred annuity policies (unless in cases of specially approved Superannuation Funds). This was to meet a possible exploitation of 'pension policies'. Some of these offered as an alternative a capital payment taken when the pension fell due, equal to all the premiums accumulated at 3 per cent. compound interest, and surrender value at any time before that date on a like basis. This had made it possible for such policies to be effected with no intention of taking the pension; the assured thus acquiring a 3 per cent. compound interest investment free of tax and enjoying at the same time abatement of Income-tax on the premiums at the then current high rates. The story is interesting as showing the need of vigilance at such a time in checking devices for personal gain at a time of national need. The Life Offices' Association had no sympathy with the practice, and did what was possible to help the taxing authorities in setting up safeguards against it.

It is unnecessary to dwell upon the complications which this rebate system was made the instrument for importing into the discussion of the larger question of the Companies' taxation. So far as reference to the matter had any value it might be said to show that, by offering official inducements

to Life assurance, public authority had supplied an additional reason why nothing should be nationally done which was likely to jeopardize the security of the benefits which Life assurance offered.

## XI. DEPRECIATION OF SECURITIES

IN order to get a proportionate view of the war-time depreciation of the Stock Exchange securities held by the Life Assurance Companies it will be well to glance first at the growth in importance of their resources as a branch of public finance. For this purpose it is sufficient to merge the Ordinary and Industrial business into one total; and the inclusion of the entire assets of the Companies which have other branches of activity in addition to their life departments will not vitiate the results for purposes of comparison. Taking the figures then on this basis we find that the total assets in 1888 were £195,670,376; in 1893 £231,362,438; in 1898 £288,790,871; in 1903 £352,612,945; in 1908 £429,298,886; and in 1913 £530,111,661.

This is a great development, and its chief importance lies in the fact that it was effected under changing conditions. Thirty-five years ago the task of judiciously investing the funds of a Life Assurance Company was much easier than it is now. The totals to be dealt with were much smaller, and consequently changes in investments were less frequent. The whole field available for the purpose, too, was narrower. Foreign securities received small attention. Above all, mortgages were popular. They generally yielded a good rate of interest. They encouraged legal connexions and so helped business. As time went on, however, and conditions changed, Stock Exchange investments began to attract more notice. On a mortgage one could at best in the end get one's money back. In the other direction profits were possible. Gradually the change made itself felt. The following statement, including both Ordinary and Industrial business, shows the relative

proportions of mortgages and Stock Exchange securities at quinquennial intervals from 1889 to 1913 :

Year	Proportion borne to total assets by	
	Mortgages per cent.	Stock Exchange investment per cent.
1888 . .	39.98	23.37
1893 . .	36.70	31.34
1898 . .	29.18	39.55
1903 . .	26.04	42.23
1908 . .	23.84	39.67
1913 . .	20.70	45.00

The change of policy, however, brought its own anxieties. For a long period Stock Exchange securities steadily fell in value. The causes of this belong to general financial history and need not be discussed here. Here the concern is with the facts, as they affect the present subject. So far as can be ascertained from the printed returns (and such results can only be approximate) the amounts written off Stock Exchange investments by the Companies from 1899 to 1913 inclusive, arranged in quinquennial groups, are as follows :

	£
1899 to 1903 . . . .	1,396,406
1904 to 1908 . . . .	3,291,058
1909 to 1913 . . . .	5,641,067
Total . . . .	<u>£10,328,531</u>

the last year being the heaviest of the series. There are also Investment Reserve Funds, accumulated at the end of the period, of £6,318,657. Much of this doubtless represents further depreciation ; for it is not infrequent to place to a suspense account of this kind falls in price which are not actually written off, in the hope of recovery. The same end is served, because amounts thus hypothecated cannot be used for any kind of allocation or division without the fact being specifically shown in the accounts.

It will thus be seen that the unprecedented fall in prices



which characterized the war period did not come upon the Companies when they were in a strong position in that respect, but rather at a time of something like exhaustion in the matter, when every one was fondly hoping that the worst had happened, that the corner was turned, and that brighter days were in store.

To proceed now to the writings down of the following years, they are as follows :

	£
1914 . . . .	1,753,744
1915 . . . .	4,796,716
1916 . . . .	2,896,417
1917 . . . .	3,355,416
1918 . . . .	2,695,333
1919 . . . .	3,431,304
1920 . . . .	8,494,594
Total . . .	<u>£27,423,524</u>

There is also a total of Investment Reserve and War Contingency Funds of £17,414,076 at the end of 1920 (in place of the £6,318,657 mentioned above as existent at the end of 1913).

It should be added that these figures cannot be said to express exactly the depreciation in Stock Exchange securities only, as in some of the Companies' accounts the general entry may include amounts written off mortgages. Where these are separately shown they have been excluded. It may, however, be taken that the bulk of the amounts answers to the description given, and this is certainly so as regards the war and post-war years. This is corroborated by inspection of the figures for the various years. In 1915, for instance, is seen the effect of decontrol of prices, and in 1920 the heavy slump in values which the unsettled and unsatisfactory world conditions then caused, and which has since been largely cancelled by recovery.<sup>1</sup>

The figures also include some actual losses on sales of stocks, but these are trivial in comparison with the total. Further, there are certain items on the other side of the account, recording profit on securities realized; but these again are

<sup>1</sup> That recovery has been well maintained since this was written, and has shown itself in the substantial bonuses declared at recent valuations. (Note of 1925.)

relatively insignificant. Their total, for instance, for the years 1914 to 1920 would not exceed half a million sterling. On the whole, therefore, it may be said that the figures as they stand fairly represent writings down of assets still held by the Companies.

Now it will be obvious, on consideration, that this item stands in a different category from that of other war losses. If we regard the war loss of the Companies as made up of the three main sections dealt with in this and the two preceding chapters, Mortality, Income-tax, and Depreciation, the last clearly differs in character from the other two. Claims paid, tax paid, are money spent. It is gone, and cannot come back. Reduction in estimated values of assets still held, however, is not of this kind. Those values may recover. At the time when these words are written they have to a considerable extent done so. Clearly therefore the word 'loss' as applied to such writings down must be construed in a special sense. There is evidence of this in the fact that the Inland Revenue Authorities have declined to consider such items in the accounts as losses when making assessment for Income-tax. The full discussion of the subject, however, properly belongs to the ensuing chapter.

## XII. VALUATIONS AND BONUSES

As the close of the year 1914 approached, and the seriousness of the war, also the evidence that its duration was not likely to be short, increased, the Companies which had a periodic valuation due at the 31st December were naturally experiencing much anxiety. Their financial positions in view of a valuation differed, as was inevitable, within fairly wide limits. It is not intended to suggest by this that there was for a moment any fear as to actual solvency. The divergences existed in that margin of assets over liabilities which at the date of a valuation forms a surplus, out of which additions to the sums assured by way of bonus are possible.

The general position of the Companies during this period in the matter of valuations cannot be understood without an

appreciation of the importance which this feature of bonuses had assumed in their affairs. The system of charging a somewhat increased premium for policies 'with participation in profits' and allotting to them a share in the surplus found available at each successive valuation, had grown with the growth of the business till it had become one of its most prominent features, and a vital element in competition. To have to 'pass a bonus', or in other words to find at a valuation that there was not sufficient surplus to declare one, was in pre-war days a very serious misfortune for any Company and a check to its power of expansion. Now, with difficulties on every hand, the values of securities heavily fallen, and the feeling that but for the Stock Exchange being closed (as it was till the end of 1914) their values would be lower still, the making of a valuation was, so far as profit margin was concerned, a thing to be feared. Further, there was the utter uncertainty as to how long the war might last, or how much severer an aspect it might assume. In these circumstances the Life Offices' Association had before it the question whether any collective action by the Companies might be possible as to the procedure to be taken by them concerning declarations of profit during the war period.

It was found, as might probably have been expected, that this was not practicable. With the individual circumstances of each case varying so widely, no general rule could have been laid down which would have given satisfaction, or the sense of equitable treatment, to every one. It has further to be remembered that each Company in a matter of such importance was primarily responsible to its own policy-holders, whose interests it held in trust. There was therefore no really satisfactory solution of the difficulty but to let each go its own way, taking the course which seemed to it in its own circumstances the most consistent with prudence and with justice. That course would probably in any case have been taken; for the collective action could only have been an advisory one, and the interests at stake on such an issue were too serious for any but individual control.

Proceeding to consider the valuations and their results, in

the light of all that has gone before, it is necessary to regard the position of the Companies as affected by the three main sources of war loss already described. In doing so it is evident how two of them react upon each other to produce what may be called a maximum of misfortune. Depreciation of security values, unpleasant as it is, would normally have the effect of raising the average rate of interest, by its depletion of the Capital Fund. In this case, however, as has been shown, that advantage was swept away (and more than swept away, as the pre-war position was actually worsened) by the high rates of Income-tax.

One of the most important questions affecting the position was that of the valuation of securities, and in this connexion a prime feature of interest is the bearing of the Assurance Companies Act on that point.

That Act provides (sect. 4) that

‘Every assurance company shall, at the expiration of each financial year of the company, prepare a balance sheet in the form set forth in the Third Schedule to this Act.’

Section 7 provides that the balance sheet ‘shall be signed by the Chairman and two directors of the Company and by the principal officer of the Company’.

The balance sheet form is given in Schedule 3, and the following note is appended thereto :

‘The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account. In the case of a Company transacting life assurance business or bond investment business, this certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made.’

‘Valuation under the Fourth Schedule’ is the usual actuarial valuation of a Life Assurance Company, which (as mentioned in a previous chapter) is made by a few Companies annually, by a few triennially, and by the majority quinquennially (the latter being the longest interval allowed by the Act).

Here we see 'freedom and publicity' fully at work. So long as the method adopted for valuing securities is stated, and a belief expressed that it is adequate, no more is insisted upon. The rest is left to the publication of the document ; and the resultant examination of it by expert critics, in the business and out of it, which may be taken as sure to follow.

Upon this basis certain traditions have sprung up which have had such general repute that by many they are believed to be legal requirements. One of them is that the values inserted for Stock Exchange securities must in no case exceed their market value on the closing day of the valuation period (in the great majority of cases the 31st December). This is nowhere stipulated. It has been urged that an average value extending over a reasonably limited period would be a fairer standard, so as to avoid any temporary depression on one particular day. There is reasonableness in this suggestion, but it would have to be acted upon with great care and judgement. Put in its extreme form, the argument for it would be that supposing the 31st December of any year found the markets affected by a temporary panic of short duration, which had little or no ground in actual conditions and quickly passed away, but which meanwhile heavily affected values, a rigid adherence to the traditional practice might penalize policyholders by reduced distribution, the effect of which would in most cases endure, so far as they were concerned, for some years to come.

There is one object lesson on this point of considerable interest. As is well known, the wave of depression which affected all securities during the later war years embraced in its operation the very loans which the British Government had contracted to meet war exigencies, and to which, on its earnest appeal, the Companies had largely subscribed. This was recognized ; and in 1917 the Board of Trade issued a statement that no objection would be raised if Government securities, redeemable at fixed dates, were entered on balance sheets at their redemption value or cost, whichever should be the less. Some Companies availed themselves of the offer and some did

not; but in any case the action was a significant one, and deserves to be recorded. It was also in accordance with common sense. The argument underlying it was this. Probably no British subjects regarded the default of the British Government as a possibility worth considering. If they had they would not have trusted it with their money. There was no likelihood that any Life Assurance Company would be so hard pressed as to have to sell these particular securities at a loss before their redemption date. Hence it might safely act as suggested.

Along the same lines of reasoning may be noticed a method of valuation which is adopted by several important Companies in the general matter of securities redeemable at fixed dates. It consists in what is known as the 'amortization' plan. Assuming that there is perfect confidence in the security, an appropriate sinking fund is set up. By this method (to quote the paper (referred to in Chapter IX *supra*) by Mr. H. Brown, whose description for conciseness and accuracy cannot be improved upon) 'the book values of redeemable securities bought at a price higher or lower than the redemption price are gradually, by means of a sinking fund, reduced or increased to the redemption price by the date of redemption, and the values so adjusted are used in the balance sheet instead of the current market values'.

On the whole, what may be said of such a plan is that it presents nothing unreasonable. It is improbable, however, that a Company would actually divide profits except up to the line of surplus shown by actual Stock Exchange values.

There is, however, another and more important question which arises in the same connexion. It concerns the whole subject of depreciated securities. These, as pointed out in the previous chapter, differ essentially from the other losses by the war. The question is, what do losses by depreciation really mean? The adage of the financiers of an older day is sufficiently familiar. 'Write investments down. Never write one up.' It is undoubtedly a counsel of perfection. What has to be asked is whether, when dealing with the results of a world catastrophe such as the recent war, unprecedented in its

magnitude and results, such a principle can apply. It is not an easy question to answer. When we look at the long record of pre-war writings down by the Companies as shown in Chapter XI the axiom seems justified. These surely have gone, never to return. On the other hand, however, when we look at the war depreciation, so enormously larger, the same thing cannot be said. Much of that has come back already. (It is right in this connexion to include, as has been done, the heavy fall in 1920; since although that did not happen during actual hostilities it is undoubtedly a war result.) Is it to be contended that this recovery should be ignored, so far as actual accounts are concerned, and exist only as a hidden reserve to which policy-holders, deprived of bonuses in its absence, can never have access?

The fact is that this time-honoured doctrine of severity, like many other good things, can be pushed *ad absurdum*. Suppose that at any particular valuation date a world panic, founded on some baseless alarm, swept through the stock markets of the nations; reducing prices to a degree at which all Life assurance profits disappeared and even solvency was threatened. Suppose, further, that it went as suddenly as it had come, and confidence returned—prices responding. Would it be right, or even sane, to perpetuate its presence for all time in the Companies' accounts? That would literally follow from the old maxim. Of course the answer would be 'Sell, and take the profits'. But this might be practically very unwise. It might mean deprivation of substantial future profit, and reinvestment under less favourable conditions in something less attractive.

If these are considered wild assumptions, it may be pointed out that the same would have been thought ten years ago of any prediction of the financial experiences of the war. It seems as if common sense must take its place in this discussion, as in everything else. One element entering into the consideration of the case should certainly be that the business under review is a very special one, and in some respect, relative especially to the present question, unique. It is concerned with

the interests of a large number of persons, and the character of that population is continually changing. It consists, in the rather fine expression of the late Dr. Farr when defining a Life Table, of 'generations passing through time'. The members, therefore, who exist at the date of a given valuation and distribution have a special claim to enjoy its fullest benefit. Profit which they have contributed to earn they have a right to receive. Profit hidden away or laid up for future use they may never have. Some of them certainly will not, for by the time another distribution arrives they will have died.<sup>1</sup> These considerations seem to point to something like a 'just and equitable mean' in this matter; especially when the case is of those who have already suffered the passing of a bonus. Safety for the future, amply secured, must of course be the first essential; and subject thereto the Companies may be trusted to give policy-holders full consideration, in the interests of their business.

The following statement is an attempt to show the collective effect of the war on profits distributed to policy-holders. The periods compared are two, each of six years' duration, from 1909 to 1914 inclusive, and from 1915 to 1920 inclusive. The inquiry, in this as in other branches of the subject, is intentionally prolonged to the year 1920, as the effect of the war on Life assurance finance undoubtedly lasted throughout that year. The figures must be regarded as approximate only, as the varying dates of quinquennial valuation have the effect of representing profits as divided which may not all have been earned within a limit which must be more or less arbitrarily selected. Further, the differing methods of distribution make the fixing of exact figures impracticable. For the purpose of a rough comparison and estimate, however, the work of preparing such a statement seemed worth undertaking. It must be regarded strictly in the light of the above reservations.

In the first period (1909-14) the amounts ascertained actuarially to consist of divisible surplus by the Companies established in the United Kingdom, and making returns to

<sup>1</sup> It is right to mention, however, that this particular case is now largely met by the widely increasing practice of allowing 'Interim Bonuses' on policies ceasing to exist, by death or maturity, between two valuations.



the Board of Trade under the Assurance Companies Act (Ordinary and Industrial business both being included) reached a total of about forty-seven millions sterling. Of this, thirty-three and a half millions were distributed to policy-holders, and five and a quarter millions carried forward unappropriated.

In the second period (1915-20) the corresponding approximate figures are as follows : divisible surplus, twenty-six millions sterling ; distributed among policy-holders, sixteen and a quarter millions ; carried forward unappropriated, five and a half millions.

The phrase 'carried forward unappropriated' describes a section of the declared profit kept in hand to form part of the divisible surplus at the next valuation. It is entirely distinct from sums set apart to form or strengthen Reserve Funds. The 'divisible surplus' only comes into existence after provisions of this kind have been made. In the circumstances 'ascertained surplus' would probably be a better expression than 'divisible'.

At sixty valuations made during the period 1915-20 no profit was distributed. At the valuation corresponding to these in the preceding six years the profits distributed approached fifteen millions sterling.

The difference above shown between the results of the two sextennial periods compared does not, as might at first be supposed, correspond to the sum of the war losses from the sources described in the three preceding chapters, but is substantially less. This will be understood when it is remembered that there was a mass of existing assurances, unaffected by war mortality. These had doubtless throughout the period yielded a normal mortality profit. There are also to be considered the 'loadings', or additions to the rates of premium on with-profit in excess of those on non-profit policies, which were of course available and accumulating throughout. These elements supply a set off, *pro tanto*, against the adverse influences.

A few important Companies went through the ordeal of the war years without departing from their accustomed standard of profit-paying. They are to be congratulated on the evidence

of financial strength thus shown. Congratulation is equally due to the other Companies, which, finding themselves in a less fortunate position, had the courage to face it squarely, and make safety for their policy-holders the first consideration. It was a right and wholesome attitude to assume, and it is gratifying to note that it has not hurt them in public esteem; as they have had their full share of the increased new business which, as the figures already quoted under that head have shown, has been done since the war years ended.

### XIII. FOREIGN BUSINESS

UNDER this heading come for consideration the policies issued by Companies established within the United Kingdom to nationals of belligerent foreign countries. That business is small in comparison with the general total of the Companies' transactions, but involves some interesting questions. Its exact amount cannot be ascertained from the published returns. The Assurance Companies Act only requires separate valuation returns to be shown for policies issued 'at other than European rates', and as the countries in question are European, that gives no help. The form of annual revenue account required stipulates that the figures for new business done 'outside the United Kingdom' shall be separately shown; but this is chiefly colonial, and that raises no special question for the present purpose. The business in Canada, South Africa, and India had no features, distinguishing war from ordinary experience, which the home business did not share. One point of interest, however, arises on the Canadian and Indian business as affected by fluctuations of exchange. It is the practice to write policies, both as regards sum assured and premium, in the currency of the country. So long as sufficient money is kept in each country to meet all current requirements, no difficulty can arise. Where this was not the case, however, some loss might have been suffered during the war by British Companies which had to buy dollars or rupees in the market at abnormal prices, to meet claims abroad. In the case of the dollar this probably did

not occur. The sensational rise of the rupee, however, may have caused trouble; but on its subsequent fall some Companies took the opportunity to buy freely and strengthen to the necessary point their Indian reserves.

The only real assistance to this part of the inquiry afforded by the published returns arises from the provision of the Act that 'where separate valuations of any portion of the business are required under local laws in places outside the United Kingdom a summary statement must be furnished in respect of the business so valued in each such place; showing the total number of policies, the total sums assured and bonuses, the total office yearly premiums and the total net liability'. From this it is possible to obtain the following statement of the position at the end of 1913:

Business of British offices in belligerent countries at outbreak of war			
	Number of policies	Sums assured and bonuses	Actuarial reserve
		£	£
Allied countries	22,352	9,356,991	3,824,123
Enemy countries	32,790	8,940,065	3,385,801

This of course is purely approximate, but the best possible estimate in the circumstances, and probably a substantially correct view of the position.

After the war began it was naturally impossible to know what was happening in the enemy countries. Proclamations were promptly issued by the Government. On the 5th August 1914 it was forbidden to effect any new policy for an alien enemy, or to pay any claim; and on 8th October following, alien branch business offices in British territory were included in that prohibition. It was, however, permitted (Board of Trade, 15th August 1914) to issue and deal with policies on the lives of aliens resident in Great Britain or its colonies, or in allied or neutral countries. Premiums on existing policies on alien lives might be received, subject to notice that this was done

‘without prejudice to any question arising in virtue of any Royal Proclamation or otherwise during the war’. As the war proceeded, it was even permitted to the Companies to lend on security of their policies to alien enemies resident in Great Britain, in internment camps or otherwise, provided the lenders were absolutely satisfied (through the Camp Commandant in cases of internment) that the money would not leave the country or be used for any hostile purpose.

Such information as the Companies could obtain as to their interests abroad could at best be vague and intermittent, and dependent a good deal on the strength and organization of their foreign branches and the calibre of their foreign branch managers. For practical purposes the foreign business may be said to be Austrian and Hungarian. Of the amounts shown in the above table 42 per cent. of the amount assured represents Austrian, and 56 per cent. Hungarian business. Of the actuarial reserve 51 per cent. is Austrian and 46 per cent. Hungarian. British Life assurance seems to have taken root and flourished in these countries especially. In them also, so far as can be ascertained, hostile feelings seem to have been less acute than elsewhere. British representatives of the business remained, in many cases, at their posts throughout the years of war, and discharged their duties, amid many hardships, without interference. In Germany itself there was comparative little business; the German insurance law, enacted some years before the war, had the general effect of leading British Companies to discontinue operations, and maintain their organization only to work off the contracts already existing.

Most foreign countries in which British business is done require a deposit, to be held by them for the security of their policy-holders. The practice as to these deposits varies considerably. In some cases it is a moderate fixed sum, in others the whole actuarial reserve. In normal times it does not vitally matter which is required, as the Companies can generally get safe local investments up to the amount stipulated; although the fixed sum (which is the British practice) is certainly preferred. During the war there was of course much

difficulty (in many cases insurmountable) in finding out what was being done with this money ; but since hostilities ended matters can be cleared up. Cases are on record where the reserve, or part of it, was commandeered for the purpose of enemy war loans ; a proceeding which though undoubtedly most irritating is not without its humorous side.

The 'Near East' (Turkey, the Levant, Egypt, and Asia Minor) was a field considerably worked by some British Companies prior to the war ; but here, as no deposits or local valuations were required, it is not possible to give figures.

One of the most interesting experiences of the Companies in connexion with their foreign business was the light war mortality ; and this applies to allied and enemy nations alike. At first sight it seems surprising, but on consideration that feeling is modified. Countries in which conscription prevails have a rigid system of classification as regards the kind of service exacted. There are carefully graded classes. One set of men, young and of recent enrolment, are liable without question for immediate use on the battle-field ; classes follow in seniority of age and service for whom this demand grows less and less exigent, and 'home defence' takes a greater place. It is true that in a great and prolonged war, and at desperate stages, some modification of this may be necessary ; but it is substantially adhered to as far as possible. Bearing this in mind, we see that in the case we are considering there is a threefold process of selection. Only a section of the men in a foreign conscript army are liable to go into the firing line ; only a section of these have their lives assured at all ; only a section of that section will have their lives assured with British Companies. When all this is taken into account it will be realized that the area of risk is very largely limited. The war mortality as a whole was great and terrible ; but this is not one of the directions in which its force was severely felt.

The most interesting and important questions affecting the foreign business of the Companies are concerned not so much with the war as with the peace and what followed it.

When the Treaty of Versailles was in its germinative stage,

the Companies were informed that it was proposed to insert among its provisions some relating to Life assurance, and were asked for suggestions on the subject. This was a new departure, and was gratifying as a recognition of the national importance of the business. Perhaps it is not too much to assume that the financial and other help given during the war had produced an effect on the official mind which bore fruit in this way. At any rate conferences were held and suggestions made. It was still more satisfactory to find when the treaty came into being that, on the whole, effect had been given to what was so indicated. Section V of Part X of the treaty, Annex III, paragraph 2, is as follows :

‘ Contracts of life insurance entered into between an insurer and a person who subsequently became an enemy shall not be deemed to have been dissolved by the outbreak of war, or by the fact of the person becoming an enemy.

‘ Any sum which during the war became due upon a contract deemed not to have been dissolved under the preceding provision shall be recoverable after the war with the addition of interest at 5 per cent. per annum from the date of its becoming due up to the day of payment.

‘ Where the contract has lapsed during the war owing to non-payment of premiums, or has become void from breach of the conditions of the contract, the assured or his representatives or the persons entitled shall have the right at any time within twelve months of the coming into force of the present Treaty to claim from the insurer the surrender value of the policy at the date of its lapse or avoidance.

‘ Where the contract has lapsed during the war owing to non-payment of premiums the payment of which has been prevented by the enforcement of measures of war, the assured or his representatives or the persons entitled shall have the right to restore the contract on payment of the premiums with interest at 5 per cent. per annum within three months of the coming into force of the present Treaty.’

The succeeding paragraphs, 12 to 15, also deal with the subject, but are not quoted in full as they are of less importance. The first enables an allied power to take over, on stated terms, all the policies of a German Company on the lives of its (the allied power's) nationals. No. 13 deals with claims made or enforced during the war, under a policy issued by an allied power in an enemy country, which were inconsistent with the laws

existing when the policy was issued. No. 15 is merely a definition. Rather more importance attaches to No. 14, as that is probably intended to deal chiefly with policies subject to what is known as a 'non-forfeiture scheme'. This is an arrangement whereby a policy which has attained a surrender value cannot lapse so long as premiums in arrear, accumulated at compound interest, do not exceed the surrender value. When that limit is passed the Company gives notice of the fact to the assured. The paragraph enables the Company, in cases where owing to the war it was unable to give that notice, and on that account remained bound by the contract, to recover from the assured the outstanding premiums with interest. It would also apply of course to cases where no such scheme existed, but where it was legally binding on Companies to give the assured notice of the lapse of a policy as a condition of ending its liability.

Taken as a whole these provisions carry out what was the undoubted desire of the Companies, that after the war had ended relations should revert as soon as possible to their old conditions; that the waters of oblivion should flow over the immediate past; and that there should for fulfilment of contractual obligations be 'business as usual'; neither assurer nor assured being the worse. That is always the natural instinct of the spirit of commerce; and whatever its defects it acts as a wholesome corrective to some other instincts which are less peaceable.

The provisions above quoted appear in like terms in the treaties with Austria, Hungary, and Bulgaria. With Turkey there is as yet no treaty.<sup>1</sup>

What has just been described as the spirit of commerce was again strikingly shown by the Companies with reference to another part of the treaty which practically affected them, that namely which is dealt with in Article 296 headed 'Debts', which set up the Clearing Office system. There is

<sup>1</sup> This omission was supplied by the Treaty of Lausanne (July 1923). Its Life Assurance provisions are substantially the same as those quoted verbatim in the text. There are a few others dealing with the currencies in which claims must be settled, which are scarcely of sufficient general importance to be here quoted. (Note of 1925.)

neither space nor need for going into details of this system, as they are well known. The Companies made, and reiterated, a strong appeal that claims under life policies, which were certainly debts within the meaning of the treaty, should be exempted from this section of its provisions. It was their earnest desire that they should be allowed to resume their old method of dealing personally with claimants, and they disliked the idea of handing over monies, justly due to these persons and often already long delayed in payment, to an impersonal and complex organization for whose proceedings they could not be responsible. There was no idea of reciprocity here, for there were few if any British subjects holding policies of Companies in what had been enemy countries. It was simply a strong and sincere wish, for the sake of their justly earned reputation, to give the best possible treatment to those who had claims on them. The Government, however, on this issue was adamant, and the Companies had to comply. They succeeded, however, on one possible point which might have been very important. Policies on which there was as yet no claim might possibly be held to be 'debts', inasmuch as they were pecuniary obligations. On that they were successful in getting a ruling to the contrary. But there was another branch of the business to which the definition did certainly apply, namely loans on the security of life policies. These were unmistakably debts, and under the Treaty they were strictly liable to be called in through the Clearing Office. German policy-holders protested against this, and the Companies themselves had no desire to enforce it, being content with their securities as they stood. On this point eventually the authorities gave way, and allowed the lenders to let the loans remain, accompanying the permission, however, with a caution to the Companies to obtain from the borrowers express acknowledgement of what had happened, lest in the future it might be pleaded that the omission to comply strictly with Treaty Provisions had legally annulled the debts.

The sensational falls in the German and Austrian exchanges which followed the war had of course to be reckoned with in the foreign business of the Companies. All claims from enemy



countries emerging before the official date of the conclusion of war (August 31st, 1921) must under the treaties be settled at pre-war rates of exchange. This, however, is complicated by the setting up of new States in Eastern Europe. An illustrative instance may be given in the case of Hungary. Hungarian nationals resident at the above date in Hungary as now constituted are entitled to have claims arising prior to that date settled at the pre-war rate of exchange. Residents in and nationals of one of the new States who intimated such residence and nationality to the Clearing Office prior to January 1922 and obtained permission to have their debts withdrawn from the supervision of that office are entitled to direct payment of such claims as above at a rate which seems uncertain; the treaties do not determine it. Residents in one of the new States who did not take the steps above described are apparently to get payment at present rates of exchange, but through the Clearing Office. This will serve as an example of the complications and difficulties that may arise.

In the present condition of Central European currencies it is clearly to the advantage of British Companies to offer policyholders surrender values of such a nature as, while far beyond the farcical figures which the exchange would give, might still close the contract upon terms which would remunerate the insurers. This has probably to some extent been already done by mutual consent. It involves no injustice to the policyholders, for the restoration of the currencies to anything approaching pre-war value is improbable for a long time to come, and the contracts are in currency.

The tendency on the whole, as a result of the war experience, among the British Companies seems to be to close down foreign business, at all events so far as the ex-enemy countries are concerned. The problem may be approached either on the lines suggested in the preceding paragraph, or by way of sale to some established foreign Company. Central European business, costly at the best and now beset with many difficulties, appears to be losing its attraction.

## XIV. CONCLUSION

IN Chapter I a comparative table showing the total business of the Companies at quinquennial intervals was given; and in Chapter XI a similar statement of total assets. Below are shown the corresponding figures for 1920, the last two items of the previous statements being here repeated for purposes of comparison.

## BUSINESS

Year	Ordinary Assurances		Industrial Assurances		Annuities (immediate and deferred)	
	Number of policies	Sums assured and bonuses	Number of policies	Sums assured and bonuses	Number of contracts	Amount per annum
		£		£		£
1908	2,746,202	767,644,459	28,541,525	285,807,599	62,333	2,758,022
1913	3,179,494	854,982,788	37,556,248	428,690,925	80,946	3,181,933
1920	4,156,760	1,063,028,236	49,519,473	635,744,433	94,419	3,890,139

## TOTAL ASSETS

Year	£
1908 . . .	429,298,886
1913 . . .	530,111,661
1920 . . .	733,898,367

These figures should certainly give satisfaction and encouragement to all who are interested in British Life Assurance. It emerges from the ordeal of war with an increasing ratio of progress in every direction.

The striking advance in the results in 1920 is no doubt in large part due to the great increase of business during the last two years of the period, dealt with in Chapter V. In contemplating the future it must be borne in mind that a large number of men who would in the ordinary course have assured their lives, and so taken place among new entrants for some time yet to come, fell in action. This must tell on the results of approaching years; but the recuperative power which has

been shown to be latent in the business is likely to maintain its expansion at a high rate.

Already the Companies are showing boldness of enterprise in reverting to pre-war tactics. Unconditional policies are being offered to civilians. Agency extension and propagandist activity have resumed their full place. Everywhere are signs of a spirit of energy which the events of the recent past have only arrested, not destroyed.

While the effects of the war on British Life Assurance have been severe and far-reaching, there is no need to exaggerate them ; and it is hoped that nothing in the preceding pages has tended in that direction. After all, in its hardship it suffered no more than the common lot. Every industry in the land, like every home, felt the impact and the strain of those years of conflict. It was sometimes pointed out that Life Assurance Companies were subject to an exceptional disadvantage inasmuch as the protection they had sold could not be increased in price. The tradesman, the merchant, the journalist, the banker, could increase their terms for what they supplied. The life premium, a matter of contract, remained fixed. It is perfectly true, but there are at least three possible answers. Claims were payable in the same fixed currency. The fact that money bought less in the market was a warning to prudent people to increase their policies ; an argument which the Companies did not fail to use and which figures show to have been effective. Further, the very fact of this fixity of premium throughout all other fluctuations of prices brought home to thoughtful persons under war conditions the unique merit of such a form of investment.

The credit of British Life Assurance has come through its trial unshaken and indeed strengthened. At its worst, the storm only touched profits, never solvency. The attack made its mark on the outworks, but left the citadel unshaken.

It has been considered that the effect would be to sway opinion in the direction of the non-profit rather than the with-profit policy, especially for entrants at the higher ages. Figures on such a point are not available, but it is probable that there

was a certain tendency in this direction. It seems hardly likely, however, to be permanent. The two classes of business will probably in the long run continue to be transacted in about the usual proportions, each meeting the requirements of its own type of assurer.

Having regard to the history of its past there is every reason to suppose that the business will continue to prosper in the future, and that its power to resist and survive the strain it has endured will stand it in good stead throughout the years to come.

NATIONAL HEALTH INSURANCE

AND

FRIENDLY SOCIETIES

DURING THE WAR

BY

SIR ALFRED WILLIAM WATSON, K.C.B.



# NATIONAL HEALTH INSURANCE

## INTRODUCTION

THE account given in the following pages of the effects of the war upon the system of National Health Insurance may conveniently be prefaced by a brief sketch of the essential features of the scheme—its nature, basis, and the scope of its operations. Such an outline will serve the dual purpose of rendering the significance of war-time developments more intelligible to the general reader, and of obviating to some extent the necessity for digression in the course of the narrative proper.

National Health Insurance was brought into being by Act of Parliament of the year 1911, ‘to provide for insurance against loss of health and for the prevention and cure of sickness’, and commenced to operate in July 1912. While the provisions of the original Act have continued to form the broad basis of the scheme, subsequent years have witnessed considerable alterations in structure resulting from experience in its administration.

The scheme consists in the compulsory insurance against sickness of the manually-employed population of the United Kingdom between the ages of sixteen and seventy<sup>1</sup>, and of all other employed persons whose annual remuneration does not exceed a certain figure. Exception is granted in the case of servants of the Crown and of certain other classes of persons, the terms of whose employment are such as to secure adequate provision in times of sickness; and there are grounds upon which exemption can be secured by the individual. *Per contra*, the benefits of the scheme may continue to be enjoyed by persons who elect to become voluntary contributors on ceasing to be insurable compulsorily.

Benefits consist (1) of ‘medical benefit’, which provides the insured person during illness with treatment by a qualified medical practitioner and with drugs, medicines, and appliances;

<sup>1</sup> By an amendment made in 1925 the limiting age is reduced from 70 to 65 from 1928 onwards.

and (2) of weekly payments during sickness, together with a lump sum (called 'maternity benefit') on the confinement of an insured woman or the wife of an insured man. The weekly sickness benefit is payable from the fourth day of an illness which renders the insured person incapable of following his employment, and continues for a maximum period of six months, when, should incapacity persist, 'disablement benefit' in the form of a reduced weekly allowance is payable for the remaining period of sickness.

The scheme as originally planned also included the provision, under the title of 'sanatorium benefit', of treatment for the tuberculous in residential institutions or by other means; but this branch of public service has now been transferred to the authorities responsible generally for services connected with the health of the community.

The contributions in return for which these benefits are provided are payable jointly by the insured person and his employer, the State contributing in addition a certain proportion (two-ninths)<sup>1</sup> of the cost of benefits and of their local administration, and bearing the whole cost of central administration. The contribution, which is payable weekly (but not during sickness or unemployment), is uniform in amount for all ages of the insured, varying only in respect of sex and for those special classes of persons (e.g. sailors and soldiers) whose position in insurance differs from that of the main body of employed contributors. Payment is made by means of Health Insurance stamps bought by the employer at a Post Office and affixed by him to the 'contribution card' held by the insured person, the employee's share of the contribution being deducted from his wages. The receipts of the Post Office from the sale of stamps are credited to National Health Insurance funds, from which issues are made to Approved Societies and Insurance Committees in respect of their several transactions. The payment of contributions is supervised by a staff of Government inspectors to ensure that cards are promptly and adequately stamped.

<sup>1</sup> From 1926 onwards this fraction is to be reduced to one-seventh for men and one-fifth for women.



The central administration of National Health Insurance, formerly controlled by bodies of Commissioners, is now carried out by the Insurance Departments of the Ministry of Health for England and Wales and by corresponding Departments in the other parts of the United Kingdom. To secure the necessary co-ordination both of policy and of executive action a Joint Committee has been established for the system as a whole.

The administration of medical benefit in each county and county borough is in the hands of an 'Insurance Committee' representative of the insured persons in the area, the local authority and the medical profession. In addition to the organization, for medical benefit purposes, of the services of local doctors and chemists, these Committees are charged with the administration of all benefits to such insured persons as are not members of 'Approved Societies'.

These societies provide the machinery by which the vast majority of insured persons receive the cash benefits payable in sickness, disablement, and maternity and by which their contributions are recorded; and consist of friendly societies and kindred institutions, e.g. trade unions, and industrial assurance societies, or bodies established in connexion with these organizations, which are approved by the Central Department for the transaction of National Insurance business. The normal course for an employed person entering insurance is therefore to become a member of such a society, and some 98 per cent. of the insured population fall within this category.

Alternative arrangements necessarily exist for the insurance of the remainder. The contributions of a person who does not elect to join, or, by reason of ill-health or on other grounds is refused admission to, a society, are carried to an individual account standing in his name. The ordinary system of insurance by the pooling of risks does not in such cases obtain, and benefits are limited to the amount of the sum standing in the contributor's account together with the State contribution thereto. Persons in this class are known as Deposit Contributors.

The other main class of insured persons for whom special

arrangements exist are members of His Majesty's Forces. In view of the special conditions of their employment, the contributions payable in respect of sailors and soldiers, and the benefits for which they are eligible, differ substantially from those of the insured civilian. About one-half of the men are members of Approved Societies, while the insurance of the others is effected through the medium of the Navy and Army Insurance Fund. The growth of the operations of this Fund, and the various war-time developments in the insurance position of members of the Forces are dealt with in some degree of detail in the pages of the main narrative.

An index to the financial position of National Health Insurance is afforded by the valuation, made once in every five years, of the assets and liabilities of every Approved Society. Machinery is provided in the basis of the scheme for the liquidation of deficiencies and for the disposal of surpluses, the latter being used to provide additional benefits for the members of the societies concerned.

Such are the broad features of the scheme. It will be realized that the working of a national institution of such dimensions is a matter of considerable complexity. The reader who desires further information on the scheme in general should consult the Official Reports on the administration of National Health Insurance for the years 1912 to 1917, and (for subsequent years) the annual Reports of the Ministry of Health and of the Scottish Board of Health.

In the narrative which follows, attention has naturally been first directed to the arrangements made for the insurance of men of the fighting services, and to the changes in the insurance of civilians necessitated by altered conditions at home. Mention has also been made of external matters in which the National Health Insurance authorities were able to assist the national cause. The concluding section reviews the effect of the war on Approved Society finance, as displayed by the result of the first valuations.

## I. THE INSURANCE OF SAILORS AND SOLDIERS

THE absorption, upon the outbreak of hostilities, of many thousands of the male population into the armed forces of the Crown made the revision of existing arrangements with regard to the insurance of serving men a matter of immediate necessity ; in particular, legislation was required to define the position of the men who were being specially enrolled for the duration of the war.

*Provisions of the Act of 1911.*

The Act of 1911 provided for the insurance, on a modified basis, of the serving sailor, or the soldier of the regular army, at a weekly contribution of 3*d.*, the payment of which was shared equally between the man and the Admiralty or Army Council. In the case of those men who were not members of an Approved Society, the functions of such a body were performed by the Navy and Army Insurance Fund, membership of which could be retained, on certain conditions, after discharge from the service, if ill-health precluded admission to an Approved Society. There was power to apply these provisions to Reservists called out on permanent service and to the Territorial Forces on mobilization ; and in August 1914 the necessary regulations were issued. Men of the Naval Reserve or the Territorial Army who were uninsured at the commencement of their service were allowed by the regulations to remain outside the scheme if they so desired.

*National Insurance (Navy and Army) Act 1914.*

The position as regards insurance of men offering themselves for service with the new armies was obviously closely analogous to that of members of the Territorial Forces. It was therefore fitting that the provisions which had been made with regard to the latter class should be extended to these newly enlisted men, and this was accordingly accomplished by the National Insurance (Navy and Army) Act of September 1914. This Act also brought into insurance, under the same conditions

as men serving in the ranks, all previously-insured men who took up temporary commissions in the Forces. Seamen and marines who enrolled for war service were, by the National Insurance (Navy and Army) Act (Session 2), placed in the same position as their comrades in the Army; so that all men who elected or were called upon to serve in a naval or military capacity were now included for insurance purposes in one comprehensive scheme.

### *Army Contributions.*

In the normal conditions prevailing before the war the contributions in respect of soldiers were paid by the ordinary method of card-stamping. This procedure, however, was not unnaturally found impracticable under the conditions of active service, and in 1915 a simpler system was introduced whereby the contributions due were paid over in bulk by the Army authorities to the Insurance Commissioners, and by them apportioned among the societies under special arrangements dictated by the necessities of the case.

The provision of the weekly contribution of 3*d.* by the payment of 1½*d.* each by the sailor or soldier and by the military or naval authorities was revised by the Act of 1918, the weekly deduction from pay being prescribed by this Act as 'such amount not exceeding 1½*d.* as the Admiralty, the Army Council, or the Air Council should think fit'. As a result, each of these three bodies decided to provide the whole of the 3*d.* contribution, the pay of the insured service man being henceforth free of deduction in this respect.<sup>1</sup>

### *Navy and Army Insurance Fund.*

Although the majority of the men enlisting for war service were members of Approved Societies, the immense growth of the fighting services naturally brought about a very large increase in the activities of the Navy and Army Insurance Fund. As time went on, and there returned to civil life an

<sup>1</sup> Under the 1920 Act the weekly contribution payable in respect of men in the Forces was increased to 4½*d.*, the whole cost being, as before, borne by public funds.

increasing number of incapacitated men whose disability precluded them from admission to an Approved Society, the distribution of benefits formed a more and more important part of the Fund's operations. This was the more so in that the condition imposed by the 1911 Act—that a disabled man must, within a prescribed period, furnish proof of inability to join an Approved Society before he could be entitled to continue his membership of the Fund—had been removed by the Act of the second session of 1914. Thus the insurance of all invalided men who were not members of Approved Societies was automatically continued by the Fund on their discharge. This arrangement continued throughout the demobilization period and only ceased upon the promulgation of the Order in Council determining the legal date of the termination of the war to be 31st August 1921. In specific cases, however, where the National Health Insurance Commissioners considered that the state of the man's health was not such as to preclude his admission to a society, they were entitled to give him notice that his membership of the Fund would expire within a given period unless evidence were forthcoming that ill-health was still a deterrent of society membership. In default of such evidence the man was to become a deposit contributor. In order to preserve the original purpose of the Fund it has been found necessary to make full use of this provision.

*Discharged men who had lost touch with their Societies.*

The recruitment of the new armies went forward in an atmosphere of intense excitement. In the general rush to exchange the conditions of civil life for those of military service, the link connecting the insured person with his Approved Society was in many cases abruptly severed by the loss or destruction of the contribution card. An unfortunate sequel manifested itself when, later on, men who had thus lost touch with their societies were discharged into civilian life broken by wounds or disease and in immediate need of the benefits of National Insurance. The hardship which would have arisen through delay was, however, obviated by an arrangement

whereby claims for benefit made before the claimant's Approved Society could be discovered were dealt with through the Navy and Army Insurance Fund, the resulting liability being transferred to the society when its identity had been satisfactorily established. The cost of the benefit payments in the few cases where exhaustive inquiries failed to determine the necessary particulars was defrayed by a small special fund set up for that purpose.

*'Free year'—Act of 1918.*

The position of insured ex-service men was further improved by the Act of 1918. This provided that, in the case of an employed contributor who relinquished insurable employment, insurance should continue with a right to all benefits for a year after the employment ceased; and under this provision, therefore, every discharged or demobilized man who had been insured during service remained entitled to benefits for a year after leaving the Forces, whether or not he took up insurable employment.

The same Act, it may be mentioned, extended the provisions of earlier legislation with regard to sailors and soldiers to the personnel of the recently formed Air Force.

To enable discharged men to continue in insurance without disability on returning to civil life, a grant was made from the Exchequer for the liquidation of any arrears incurred before enlistment which would otherwise have affected their position as regards benefits after discharge.

#### *Administration of Benefits in Navy and Army Insurance Fund.*

The maternity benefit of the wives of serving men who are members of the Navy and Army Insurance Fund is paid through the Admiralty, the Army Council, or the Air Council as the case may be. In the case of discharged men, claims are made to the local Insurance Committees, whence they are passed, after scrutiny, to the Navy and Army Insurance Fund. Payment is then made direct to the man or his wife.

Table 1 (p. 222) shows the growth of the operations of the

Fund as the war progressed. The civilian members of the Fund being necessarily men of impaired health, their benefit claims cannot be measured by any ordinary standard. It may be remarked that the solvency of the Fund is guaranteed by the State, any resultant charge being borne upon the Votes for the fighting services.

*Insurance Benefits of Pensioners.*

The return to civilian insurance of an increasing number of men who had been rendered incapable of work by disease or injury contracted during service rendered necessary a review of the rates of insurance benefit for which they were eligible, regard being had to the provision otherwise made for them through the system of war pensions. By the National Insurance (Part I Amendment) Act of 1915 some provision was accordingly made for the relief of Approved Societies from the financial strain involved in the payment of full benefits to those of their ex-service members who were in receipt of pensions in respect of total disablement.

In such cases the Act prescribed the reduction of sickness benefit by 5s. a week, and the suspension of disablement benefit, while the full pension continued. This reduction in insurance benefits was taken into account in the revision of pension scales which was simultaneously effected.

The arrangements thus instituted continued in force until the beginning of 1917, when, as a result of greater experience in dealing with the needs of invalided men, a second revision of pension rates was found to be desirable; and a corresponding modification of the insurance benefits payable to certain classes of pensioners was necessitated, effect being given to the new arrangements by the National Insurance (Part I Amendment) Act of 1917. Under the new pensions scheme permanent pensions at full rates were to be awarded for certain injuries not necessarily involving total incapacity for work; hence, to avoid possible injustice to those men who, while receiving these pensions, yet found themselves able to resume employment, the 1917 Act provided that the reduction of sickness benefit,

and the suspension of disablement benefit, should cease in the case of a pensioner upon proof being afforded, to the Approved Society concerned, that subsequent to discharge 26 and 104 weeks respectively had been spent in insurable employment, and that the corresponding number of contributions had been paid.

*Gratuity in lieu of Pension.*

The other main modification of the pensions scheme was the substitution of a gratuity for a pension in the case of certain men discharged on account of nervous disorders, on the ground that the receipt of a pension would have the detrimental effect of establishing such men in a conviction that they were unfit for work ; while the regular receipt of sickness benefit would operate in similar fashion. It was therefore decided that any gratuity exceeding a certain figure should be increased by the Ministry of Pensions by the equivalent of 26 weeks' sickness benefit, and the Act of 1917 provided that in the case of a man awarded a gratuity (partly or wholly in respect of temporary total disablement) of not less than £30, no sickness or disablement benefit should be payable until proof had been given of 26 weeks' insurable employment since discharge, and of the payment of the corresponding number of contributions.

*Recoupment to Societies of the Cost of Benefits to Disabled Men.*

Despite these measures of alleviation, considerable apprehension was still felt by Approved Societies as to the effect on their funds of the claims of disabled ex-service men. It need hardly be remarked that such contingencies as these which now arose as a result of the war were unprovided for in the actuarial basis of the National Insurance scheme ; and as a large proportion of the male insured population of military age was serving in the forces, some sort of *ad hoc* adjustment seemed to be required which would throw the financial burden of these claims upon the State as a whole. The justice of this principle having been admitted, it remained to devise a means of arriving at the monetary amount of the liability to be



assumed by the State, i.e. that proportion of the benefit payments to discharged men which was considered to be directly attributable to war service, and which was accordingly to be recouped to Approved Societies from the Exchequer. A process of individual scrutiny, with an attempt to decide whether each claim was or was not directly due to war service, was clearly impracticable; and the basis ultimately adopted was that furnished by an actuarial investigation into the actual sickness experience, both before enlistment and after discharge, of members of certain societies selected in such a way as to form a representative sample of the whole body of Approved Societies. As a result of this investigation the proportion of the total expenditure on sickness and disablement benefits paid to invalided men discharged during the war to be recouped by the State was assessed for the period up to 31st December 1916 and thereafter annually. It was therefore necessary for Approved Societies to keep separate records of the amounts paid in sickness and disablement benefits to those of their members who came under the operation of the scheme, so that by application of the appropriate factor the yearly amount of the refund to the society could be determined.

It is a commonplace of Friendly Society finance that the expenditure of a society on benefits is affected by the quality of its administration, and it was therefore equitable to make the payment of the recoupment grant to an Approved Society conditional upon evidence of the satisfactory administration of its National Health Insurance benefits. The various improvements in the organization of Committees of Management, in systems of scrutiny of claims and sick visiting, and in other branches of administration which were effected as a result of this condition, could not but redound to the advantage of the insured population as a whole; and in very few cases was it found necessary even to threaten the suspension of the grant.

At the inception of the scheme provision was made for a review of the position at 31st December 1920. By that date it was possible to consider the situation in the light of the information afforded by the first valuation of Approved

Societies, and it was manifest that the additional liability incurred in respect of benefits paid to discharged men had been more than off-set by the financial advantages accruing to Approved Societies as a result of other conditions arising out of the war. It was accordingly decided that as from 31st December 1920 the recoupment grant should be discontinued.

*Medical Benefit of Invalided Men.*

The year 1917 saw the inception of an important provision for the medical treatment of invalided sailors and soldiers. The Minister of Pensions, who, under certain war-time enactments, was made in a general way responsible for the provision of such treatment, requested the Insurance Commissioners to extend their existing facilities for medical and sanatorium benefit to those invalided men who were uninsured and therefore in existing circumstances ineligible for National Health Insurance benefits. Regulations for this purpose were therefore made under the enabling section of the National Insurance (Part I Amendment) Act 1917, and henceforward medical and sanatorium treatment were available to all invalided ex-service men save only those whose annual income exceeded the statutory limit of £160. Right of participation in these benefits was therefore automatic upon discharge, and the question did not arise, as in the case of the ordinary insured person, of the status in insurance; so that it was possible to set up a simplified system of administrative procedure. Each man was on discharge provided by the Ministry of Pensions with a form of a simple character, which he could complete and hand to any doctor he chose; the latter could then proceed with treatment.

*Tuberculous Sailors and Soldiers.*

An important feature of the war-time activities of the Insurance Commissioners was the provision of sanatorium or other necessary treatment to all discharged men suffering from tuberculosis; for shortly after the admission to benefit of uninsured men within the income limit, arrangements were made

whereby the Commissioners dealt, on behalf of the Ministry of Pensions, with the remainder of the uninsured.

The Commissioners were therefore notified by the naval and military hospital authorities of all cases of tuberculous men about to be discharged; and steps were taken, through the medium of the Insurance Committee for the area in which the patient intended to reside, to secure suitable accommodation in each case where residential treatment was deemed by the hospital authorities to be essential. Cases not thus certified were re-examined by the tuberculosis officer of the Insurance Committee concerned, the necessary accommodation being provided if the previous verdict was reversed.

These arrangements were of course subject to the consent of patients to accept treatment; and in this connexion material assistance was derived from the authority vested in the Ministry of Pensions to make special allowances to the dependants of pensioners undergoing institutional treatment, and also to reduce the pensions of men who refused to avail themselves of the facilities offered for the improvement of their health.

In severe cases where continued residence in a sanatorium was desirable, but unlikely to restore the patient to any great degree of working capacity, the responsibility for the eventual residential accommodation was undertaken by the Ministry of Pensions. Such cases were therefore reported, by the Insurance Committees concerned, to the Commissioners, and by them to the Ministry; arrangements being made to preclude any intermission between the respective courses of treatment.

The satisfactory progress of these arrangements for the administration of medical and sanatorium benefits to invalided men could only have been achieved by the maintenance of a high degree of co-operation not only between the central administrations—the Ministry of Pensions and the Insurance Commissioners—but also between the local War Pensions Committees and the Insurance Committees. An additional measure to secure that all invalided men were afforded every possible opportunity of receiving adequate treatment was the insertion

of a new clause in the 'agreement' between the Insurance Commissioners and the medical profession, whereby insurance practitioners were required to advise patients who needed special treatment of the facilities for such treatment afforded by the War Pensions Committees; and at the same time to give, for the guidance of the body in question, a brief report on the patient's health.

*Special Grants to Insurance Committees.*

These special arrangements with regard to the treatment of tuberculous men involved considerable additional charges on the Sanatorium Benefit Funds of Insurance Committees, and to relieve the strain funds were set up by Parliament from which grants were made if the Committee applying for assistance satisfied the Insurance Commissioners that the treatment was promptly and satisfactorily administered to those in need of it.

*Financial modifications, 1919.*

The general arrangements described in the preceding paragraphs remained in force without substantial alteration throughout the actual war period with which this short history deals; but it may not be out of place to refer very briefly to certain modifications, chiefly financial in character, which were introduced at the beginning of 1919. While the work of procuring the necessary treatment for tuberculous ex-service men, and of maintaining a close *liaison* for that purpose with the naval and military hospital authorities and the Ministry of Pensions continued to be performed by Insurance Committees, the financial responsibility was transferred directly to the Exchequer by the constitution of a central fund called the Discharged Soldiers' Sanatorium Benefit Fund. Into this fund was paid from National Health Insurance funds, in respect of each case dealt with, the average amount which those funds would provide for the sanatorium treatment of an ordinary insured person, the whole further cost being borne by the Exchequer.

By the Act of 1920 sanatorium benefit was withdrawn from the National Health Insurance scheme, and the responsibility

for the provision of treatment to persons suffering from tuberculosis was thenceforward transferred to local authorities.

*Remuneration of Practitioners.*

Consideration had also to be given to the representations of the insurance practitioners with regard to the medical treatment of invalided men. It was urged with some reason that the treatment of these men represented an additional heavy burden not contemplated in the original agreement with the medical profession, and that payment for such treatment should therefore be on different terms from that applicable to the ordinary insured population. It was accordingly agreed to set up machinery for measuring the extent of the extra burden which the practitioners alleged they were now called upon to sustain, and with this end in view a system of payment per attendance was adopted for the treatment of invalided men. In existing cases where the patient was already included on the doctor's list at the ordinary capitation rate, the latter was given the option of retaining him on the list or placing him on the new basis of payment per attendance. For the purposes of this new arrangement a special fund was constituted into which was paid the normal allowance for medical benefit in respect of each invalided man treated on the attendance basis, the balance of the sum required being provided by the Exchequer.

*Administration Expenses—Sailors and Soldiers.*

The enlistment of large numbers of insured men involved temporarily a considerable expansion of the administrative work of Approved Societies, and, what was more serious for the societies, automatically reduced their income for administrative purposes by substituting under this head the low capitation allowance for a serving man for the normal sum allowed in respect of a civilian.<sup>1</sup> As the number of enlisted men increased, this created an embarrassing problem for the societies which,

<sup>1</sup> The allowance for administration in respect of a civilian was 3s. 5d. a year, but for a sailor or soldier, in whose case there were no benefits to administer except the maternity benefit payable occasionally to the wife of the married man, was 8d. a year only.

in general, found themselves unable to adapt their arrangements to the altered conditions by reduction of fixed charges, salaries of staff, &c. It was accordingly decided in 1915 to increase the maximum amount which might be appropriated for administration expenses in respect of serving sailors and soldiers. This increase was rendered possible by a revision (justified in itself on grounds of equity) of the statutory condition governing the Exchequer Grant to the Navy and Army Insurance Fund. Under the 1911 Act this grant was fixed at two-ninths of the amount which it was estimated would have been expended on benefits not provided for serving men, had all contributors in the Navy and Army been civilians ; the assumption apparently being made that the contributions in respect of these men would in general be credited to the Navy and Army Fund, whereas in point of fact the majority of the men became from the outset members of Approved Societies. Under peace conditions this inequality of treatment as between the Fund and the Approved Societies was of no great importance, the number of insured service men being but a very small percentage of the total insured population ; but upon the transfer of great numbers of men—mostly members of Approved Societies—to the fighting services, the position threatened to become acute. The finances of the Fund were being augmented to an inordinate extent in respect of people who in fact were in Approved Societies, while the societies, with no financial margin to assist them at that stage, were wrestling with increased expenses and depleted administration incomes. The position was adjusted by allocating to societies the State proportion of the expenditure which it was estimated would have been incurred on benefits had their serving members remained in civil life, the Navy and Army Fund being similarly dealt with in respect of the men for whom it was in actual fact responsible. Immediately this step was taken a suitable increase in the administration allowance for serving men became possible.

## II. THE INSURANCE OF CIVILIANS

Attention has so far been confined to the adaptation of the National Health Insurance scheme to the new conditions arising out of the military situation and the discharge from the Forces of the diseased and disabled. The changes in the social and economic conditions governing the life of the civil population produced insurance problems of equal significance and postulated further changes in legislation and administrative procedure.

*War Compensation and Insurance Benefits.*

‘Compensation’ which entailed the reduction or suspension of the normal sickness and disablement benefits had, before the war, been limited to payments under the Workmen’s Compensation Act of 1906; but upon the passing of the Injuries in War (Compensation) Acts, which granted awards in certain cases to civilians injured in connexion with war operations, it became necessary to bring these under the same heading of compensation where insurance benefits were concerned. This was effected by the National Insurance (Part I Amendment) Act of 1915, pensions and allowances granted to persons injured in merchant ships or fishing vessels as a result of hostilities being also included by this Act and the Government War Obligations Act of the same year. Machinery was set up whereby Approved Societies could be notified through the Insurance Commissioners of any such awards to their members.

Some misapprehension was found to exist among Approved Society officials as to the effect on insurance benefits of the Workmen’s Compensation (War Addition) Act of 1917. The purpose of this Act was to meet the increased cost of living by an addition of 25 per cent. to the weekly compensation payable to a totally incapacitated workman; and as this provision was regarded as a temporary superimposition on the main Act rather than as a substantive alteration, Approved Societies were directed to disregard the additional weekly payment in determining the rates of sickness and disablement

benefits payable to the injured workman, i. e. deductions were to be made from these benefits only in respect of the original weekly payment under the Act of 1906.

*Insurance of interned Merchant Seamen.*

Special consideration had to be given to the position in insurance of persons employed in the Mercantile Marine. At the outbreak of hostilities, merchant vessels lying in enemy ports were seized and the crews interned ; while a similar fate befell those seamen who fell alive into the hands of the enemy upon the attack or capture of their craft at sea. The detention in captivity of these men in a foreign and hostile country added to the difficulties which even in normal times were found to attend the maintenance of the insurance of seamen ; and upon their eventual release and return to England the men concerned were faced with an accumulation of arrears of contributions which, until discharged, rendered them ineligible for the benefits of which many of them were in immediate need. The Insurance Commissioners therefore undertook to credit the Approved Societies with the contributions of all interned seamen during the period of internment, thus maintaining the continuity of their insurance and safeguarding their title to benefits. The money required for this purpose was derived from the accumulations of contributions on derelict cards—the existence of which, to some extent, is of course inevitable in any widespread system of compulsory contribution.

*Persons engaged in ' War work ' : Temporary Employment in Agriculture.*

The Commissioners had to deal with a series of problems on the subject of the liability to insurance of persons who took up ' war work ' of various kinds or who were otherwise employed in some special capacity to which war conditions gave rise. Such a problem arose, for instance, in connexion with the employment upon the land of large numbers of persons, mainly women, who were not ordinarily insured. Many of these were engaged in their agricultural work for two or three days only in the week,



and were normally entitled to claim exemption from the payment of National Health Insurance contributions, although the farmer by whom they were employed was required to pay his share of the joint contribution. The employer was therefore in the position of having to pay contributions in respect of a considerable number of occasional workers instead of a small number of regular agricultural labourers. To remove the hardship thus imposed upon farmers who availed themselves of the services of volunteers, the National Insurance (Temporary Employment in Agriculture) Act was passed in December 1916. This provided for the exclusion from insurance of persons whose normal occupation was non-insurable and who were temporarily employed on agricultural work in the place of men withdrawn for military or other war service. Certificates of exclusion were obtainable from the Insurance Commissioners through post offices and by other means; and upon the production by a worker of such a certificate, the farmer was relieved of the necessity of paying Health Insurance contributions in respect of that worker. A large number of certificates were issued, the vast majority of them to women, and the Act may be said to have met the case of the persons for whom it was intended. At a later date in the war period there was established a more systematic method of recruitment for land workers, women being engaged and trained for whole-time service by the Board of Agriculture. The majority of the women enrolled under this later scheme did not come within the scope of the Temporary Employment in Agriculture Act, being drawn from insurable occupations to which they would revert on the completion of their land service. During the time of training, when the women were not in receipt of wages and therefore not liable to compulsory insurance, the Board of Agriculture undertook to maintain the continuity of their insurance by paying the full contributions.

*Insurance of Q.M.A.A.C., &c.*

Another class of women whose insurance position gave rise to special problems in the administration of the Acts was

Queen Mary's Army Auxiliary Corps and the corresponding services of the Navy and Air Force. The personnel of these corps did not fall within the scope of the legislative enactments with regard to the insurance of the armed forces, but were subject while serving in the United Kingdom to the ordinary provisions as to the insurance of civilians. Many of the women had been previously insured, but there were also those whose service in the corps was their first experience of insurable employment. Some 'administrators' and other officers were exempted from insurance by reason of their employment being of a non-manual character and at a remuneration in excess of the limit of £160 per annum. Women serving overseas were not liable to insurance, but in the case of those who had been previously insured arrangements were made under the Act of 1918 to preserve the continuity of their insurance and to maintain their title to benefits on their return without the interpolation of fresh 'waiting periods'. This was secured by the payment of a reduced weekly contribution throughout the period of non-insurability.

*Insured Persons who took up Temporary Non-insurable Employment.*

Apart from the difficulties and complications involved in the withdrawal of men from civilian life and the entry into insurable employment of large numbers of women and others not called upon to serve in a naval or military capacity, problems arose in connexion with the position in insurance of those members of Approved Societies who took up temporary non-insurable employment in connexion with the war. Normally, such persons would, speaking broadly, have been regarded as going out of insurance after one year had elapsed from the date on which insurable employment ceased. The circumstances of these cases, however, were clearly special, and it was decided that where the change in conditions of employment was of a purely temporary character and the original status would be reverted to at the termination of hostilities, the insured person should be granted the privilege

of remaining in insurance and allowed on his return to redeem arrears at a reduced rate. This improvised method continued until the situation was regularized by the Act of 1918, which made arrangements for maintaining the continuity of such persons similar to those previously described in the case of previously-insured members of the Q.M.A.A.C. The 'war occupations' to which the provision applied were prescribed, the list including employment under the British Red Cross Society, volunteer canteen organization, contractors to the naval and military authorities, and other bodies whose employees were exempted from insurance on such grounds as the absence of a contract between employer and employed, the situation overseas of the work, or the possession by the employing authority of a certificate of exception. The weekly contributions necessary to maintain the insurance were 4d. and 3d. in the case of men and women respectively, and in several cases arrangements were made with the employing authority for the payment of these contributions on behalf of the insured persons concerned.

#### *Exemptions from Insurance.*

The changes in employment and in other social and economic conditions resulting from the war had the effect of raising a large number of questions on the subjects of insurability and exemption from insurance. Some of these have already been briefly dealt with, but there were others arising more directly out of the definitions of the various grounds on which exemption could be claimed. Thus a considerable number of discharged soldiers drawing army pensions advanced claims for exemption as being in receipt of unearned income of an annual value of £26 or upwards, but it was thought advisable in such cases to point out that exemption was optional and not compulsory, and that the surrender of the advantages of insurance might afterwards be regretted.

A prominent feature of the war period was the temporary employment in 'war work' of various kinds of a large number of persons hitherto outside the scope of National Health Insur-

ance. Many men and women of independent means, girls who had hitherto remained at home without regular occupation, and married women normally occupied in the duties of the household took up munition work or were employed in a clerical capacity in Government or other offices. Many certificates of exemption were granted in these cases on the grounds of private means or of dependency, in ordinary circumstances, upon other persons.

A considerable number of exemptions were also granted on the grounds that livelihood was normally obtained from an occupation not scheduled as insurable employment, the applicants being chiefly business men, clergymen, and other members of the professional classes who undertook work of national importance, and Belgian refugees earning their living in this country during their temporary exile.

#### *Exemption of Temporary Army Nurses.*

Special mention may be made of the grant of a certificate of exception to the Army Council in 1914 in respect of temporary nurses employed for the duration of the war. The usual condition for the grant of such a certificate—that some form of provision is made for the payment, in cases of continued sickness, of an allowance equivalent to the National Health Insurance disablement benefit—was waived in view of the special character of the case, but the position of previously-insured nurses, on their discharge, was safeguarded by the condition that the War Office was to make the payments necessary for the resumption of full benefits without reduction in consequence of arrears. After the passing of the 1918 Act this arrangement was secured, as a matter of law, by the inclusion of these nurses in the ‘war occupations’ arrangement.

#### *Effect of the War on the Deposit Contributors’ Fund.*

The conditions of employment prevailing during the war had their effect not only upon the membership of Approved Societies, but also upon the number of persons of both sexes who had elected to be Deposit Contributors. The number of

men of this class naturally diminished as the war advanced, but the decrease was more than counterbalanced by the large number of women who, by taking up war work of various kinds, became liable to insurance but preferred not to join Approved Societies. At the close of the war the position was reversed. With the cessation of their war activities many of the women who had temporarily been engaged in insurable employment lapsed from insurance, while the number of male Deposit Contributors was increased by the influx of considerable numbers of discharged and demobilized men who had not been members of Approved Societies, and who were not retained, on grounds of ill-health or incapacity, in the Navy and Army Insurance Fund. Many of these men transferred, however, at a later date to Approved Societies.

#### *Disabled Men undergoing Training.*

Reference may be made to the position in insurance of disabled men undergoing training courses. The training was given both by private firms and in Government institutions, comprehensive schemes being developed as time went on by the Industrial Training Department of the Ministry of Labour. The men under instruction fell into two main classes—those who received a Government allowance for their maintenance during the training period, and those who in lieu of this, or in addition, were paid by their employers. The former class were not required to be insured, but in the latter it appeared that a contract of service or apprenticeship existed and the employment was accordingly insurable. The position of ex-officers and men undergoing training for land work under the auspices of the Ministry of Agriculture was similarly dealt with.

#### *Insurability.*

Many questions of insurability arising purely out of temporary war conditions were dealt with administratively and not under the formal procedure of the original Act. In a large number of cases the determining factor as to liability to insurance was the

nature of employment—whether manual or non-manual—and in the latter case, whether the rate of remuneration was in excess of the statutory limit. Many and varied considerations arose in connexion with industries of all kinds, the steady rise in wages continually complicating the position in regard to classes of workers whose insurance position had not hitherto been in doubt. When, as in the earlier days of high prices was generally the case, the increase in wages took the form of a ‘war bonus’ addition to the substantive amount, it was in many instances decided temporarily to continue the insurance of non-manual workers notwithstanding that they might actually be remunerated for the time being at a rate in excess of £160 a year, and also to ease the difficulty of discriminating between manual and non-manual labour by ascribing various border-line forms of employment to the former class without seeking a legal decision.

These measures of working agreement were arrived at by consultation with representatives of the employers and work-people of the more important industries, and were regarded as temporary expedients to meet the unusual conditions prevailing. It became clear, however, as time passed that the increased rates of remuneration could no longer be regarded as purely temporary, and it was therefore desirable to regularize the situation by introducing legislation which should ensure the retention within the scope of National Health Insurance of those types of workers for whom the provisions of the original Acts were intended. As matters stood, not only were Approved Societies confronted with a continually decreasing membership on account of members’ earnings exceeding the annual limit, but also many workers expressed dissatisfaction at thus passing out of national insurance and losing the advantages of its various benefits. Accordingly, by the Act of 1919 the wage-limit was raised in the case of non-manual workers from £160 to £250 a year, such persons, however, as were thereby brought into insurance for the first time being given the right to claim exemption. Manual workers remained liable to insurance irrespective of the amount of their annual earnings.

*Increase of Benefits and Contributions.*

The continual fall in the purchasing power of money gave rise, a little later, to a demand for a general increase in the benefits of the scheme. This was effected by the Act of 1920, under which the benefits of all insured persons were increased by about 50 per cent., the contributions of the insured and their employers being correspondingly raised.

*Outworkers.*

The monetary disturbance gave rise to difficulty in regard to the contributions of 'outworkers', i. e. persons who take out work from employers to be performed in their own homes or workshops. The conditions of employment of this class are in many cases such as to make the ordinary system of payment of contributions with reference to each week of employment unsuitable, and regulations permit the payment of contributions on the basis of 'units of work', these representing, in each trade, the estimated earnings of an average outworker over a full week. During the years under review, the general rise in industrial wages necessitated the increase, in the case of certain trades, of the monetary 'units of work' as settled before the war.

*Cotton Operatives.*

Consideration had to be given to the position in insurance of cotton operatives who were unemployed as a result of the restrictions of the Cotton Control Board, but who received certain payments from the Board's funds. There was no legal liability on employers for payment of contributions in respect of their employees who were workless, although in some cases contributions were paid; and to ensure that operatives should not fall out of benefit while thus situated, arrangements were made in 1918 that the funds of the Control Board should be drawn upon for the payment of contributions and the liquidation of any arrears which had been incurred through the operation of the scheme.

*Insurance of Belgian Refugees.*

The arrival in the country of many thousands of Belgian refugees and their subsequent employment in various industries raised the question of their position in relation to national insurance. The whole subject was considered, with other problems created by this influx, by a Departmental Committee appointed by the Local Government Board, which reported that Belgians employed in this country under a contract of service were liable in the ordinary way to compulsory insurance; although it was, of course, possible in many cases to claim exemption on the ground that livelihood was ordinarily obtained from employment in Belgium. Detailed information on the subject was afforded by the Commissioners to the persons affected.

The number of Belgians wishing to claim exemption was not large; the great majority, on being absorbed into industries of various kinds, entered insurance either as members of Approved Societies or as Deposit Contributors. The numbers in this latter category were so large as to indicate that considerable misapprehension prevailed as to the more advantageous status—membership of an Approved Society; and to supply the needs of the refugees in this respect the ‘Union Belge’ was founded in 1916, as an Approved Society exclusively for their accommodation. The society was formed under the auspices of the Belgian Government, and was managed by Belgians, the rules being printed in French and Flemish. There can be no doubt that the formation of such a society enured greatly to the advantage of these refugees, to many of whom, unfamiliar with the English language, the complexities of National Health Insurance could ordinarily only have been productive of confusion and misunderstanding. At the termination of hostilities the ‘Union Belge’ was found to have served its purpose, most of its members returning to their own country; and it was accordingly dissolved as from 30th June 1919. Provision was made for the State Insurance engagements of those who remained in England to be taken over by another



society ; while members returning to their own country were notified by public advertisement that they might apply for a refund of contributions as if they had been deposit contributors.

### III. MISCELLANEOUS QUESTIONS ARISING OUT OF THE WAR

#### *Winding-up of Societies of Enemy Aliens.*

The provisions of the Defence of the Realm Act were applied to wind up the affairs of a few societies whose membership consisted mainly of enemy aliens, the insurance of the remaining members—neutrals, British-born wives of German nationals, &c.—being transferred to a new society formed for that purpose.

#### *Societies (Suspension of Meetings) Act, 1917.*

An example of *ad hoc* legislation necessitated by the abnormal conditions of war-time is furnished by the Societies (Suspension of Meetings) Act of 1917, passed to relieve societies in certain circumstances of the necessity for their usual annual meetings. Various causes contributed to the difficulty which Approved Societies were experiencing in this respect. Many of their active members were on military service ; others were engaged in work of pressing national importance ; the depleted management staffs were wrestling with an ever-increasing volume of duties ; while in the case of members and delegates residing in distant parts of the country, the necessary railway travelling was difficult and expensive. To alleviate the exigencies of the situation, authority was given to the Commissioners by the Act of May 1917 to entertain applications from Approved Societies for permission to suspend general meetings, and to sanction such a proceeding upon the production of satisfactory proofs of inexpediency. By a provision of the Act, such sanction could also be given retrospectively in respect of any failure to hold a meeting before the passing of the Act. Similar powers were vested in the Registrar of Friendly Societies with regard to bodies under his supervision, including the friendly societies,

which in a great number of cases had also become Approved Societies, and therefore had a State side as well as a voluntary side. The Act provided that where a meeting had been suspended the Committee and officers at the time holding office should continue to do so until circumstances again permitted the holding of a meeting at which an election could take place.

A considerable number of societies availed themselves of the provisions of the Act, both during the period of actual hostilities and in the time of transition to peace conditions which followed the Armistice. As conditions became easier, and the difficulties in the way of holding the meetings gradually grew less, it was felt necessary by the Commissioners to exercise very careful scrutiny in regard to applications, many being dismissed on the grounds that the alleged difficulties had not been adequately proved. The last successful application was made in August 1919.

#### *Suspension of Insurance Committees', &c., Elections.*

Considerations similar to those which brought about the Societies (Suspension of Meetings) Act led to the postponement during the war period of the elections of Insurance Committees and other bodies concerned with the local administration of National Insurance.

#### *Finances of Insurance Committees.*

The enlistment of large numbers of insured men, the entry of many women into insurance for the first time, and the return to civil life of discharged sailors and soldiers had the effect of complicating the work of Insurance Committees in the administration of medical and sanatorium benefits, and from this and other causes connected with the war expenditure rose above its normal level. At the same time the income available to the Committees for their administration expenses was reduced, since the number of enlistments largely exceeded the number of new entrants into insurance, with a consequent falling off in the receipts from capitation grants in respect of persons entitled to medical benefit. This state of affairs led in

1918 to the supplementing of the usual yearly State Grants by an emergency grant from the Exchequer, such grant to be applied to any deficiency which might remain on a Committee's administration account after other available moneys had been utilized.

*Transfers of Membership.*

A feature of National Health Insurance administration which pre-war experience had shown to involve considerable labour both to societies and to the Insurance Commissions was the system of transfers of membership between Approved Societies. In view of the universal depletion of staffs during the war, representations were made in 1915 to Approved Societies and the general insured public urging the restriction as far as possible of transfers of membership, and providing that transfers should normally take effect only at the end of a half-yearly contribution period. The response to this suggestion was considerable, the number of transfers effected during the subsequent years of war showing a marked and progressive decrease. A natural reaction followed the cessation of hostilities and the return to more normal conditions.

*Doctors and Military Service.*

It fell to the Insurance Commissioners to protect the position of insurance practitioners who were absent on military service. There was considerable danger that such men might return to their practices only to find that the majority of their insurance patients were seeking medical service elsewhere, and to minimize this possibility regulations were made whereby insured persons on the list of a practitioner holding a commission in H.M. Forces could only change their doctor upon what were regarded, by the Medical Service Sub-Committee of the Insurance Committee concerned, as reasonable grounds.

The recruitment of large numbers of doctors for service in the Royal Army Medical Corps, and the enlistment of medical students who would in normal times have supplied the gaps made in the profession by death or retirement, naturally raised problems of considerable importance in relation to National

Health Insurance; and it was necessary for the Insurance Commissioners to establish a close *liaison* with the Central Medical War Committee, a body set up to deal with all problems arising out of the war with regard to the medical profession. In particular the Committee was responsible for the supply of officers for the R.A.M.C., and with it lay the final decision in cases of doctors applying for exemption from military service on grounds other than conscientious objection. In order to secure that an adequate medical service should as far as possible be maintained for the insured population, arrangements were made whereby the Commissioners were consulted in every case; and information was obtained both from the Insurance Committee concerned and from the local Medical War Committee before a decision was arrived at as to whether or not the doctor should take up medical service with the Forces. As the military situation grew more acute, the Insurance Commissioners were able to lend material aid to the Central Committee in this survey of the medical position throughout the country.

The position was complicated by the fact that the thickly populated industrial areas requiring a concentrated medical service often contained a large proportion of young medical men who were most suitable for active service. The influenza epidemic of 1918 in fact necessitated some applications to the National Service authorities for the immediate return to civil life of doctors in the Forces, and, after the Armistice, for the rapid demobilization of those whose professional services were most urgently required in their former civilian sphere.

The stress of war conditions, while thus introducing various difficulties into the work of the Insurance Medical Services, cannot however be regarded, on balance, as having been prejudicial to the insured. The wide and varied experience of those practitioners whose services were required in the field of war, and the changed circumstances of the work of those to whom it fell to carry on their professional duties at home, were bound to be of advantage to those to whom they subsequently ministered.

*Chemists and Military Service.*

The question of the military service of chemists needed similar attention, and here again it was necessary for the Commissioners to aid the military authorities, and at the same time to watch the interests of the insured population by maintaining, through the agency of the Insurance Committees, close supervision over the pharmaceutical services of the country.

*Effect of the War on Insurance Staffs.*

The staffs of the Insurance Commissioners themselves, of Approved Societies and of Insurance Committees, were continually being depleted by the ever-increasing demand for men of military age. Owing to the immaturity of the National Health Insurance scheme, the proportion of young men engaged in its administration, both in the Government Offices at headquarters and in the local centres of insurance—Approved Societies and Insurance Committees—was peculiarly high; while the number of officials qualified by training and experience to assume positions of responsibility was also limited by the short period during which the scheme had been in operation. An adverse feature of the situation was the considerable degree of complication introduced into the original scheme by the manifold adaptations required to meet the special conditions arising out of the war. Those officers of societies and Insurance Committees who remained to carry on the work of national insurance looked for instruction and guidance in these new problems to the inspectors of their districts; and on these officials fell the duty of advising the thousands of new entrants into insurable employment, and their employers, in regard to the stamping and surrendering of cards and other procedure. Discharged sailors and soldiers who had got into difficulties by losing touch with their Approved Societies, and invalided men whose insurance was complicated by conditions as to pensions and allowances, also required assistance. In these circumstances, therefore, the work of the inspectorate inevitably became more administrative in character than in normal circumstances would have been the case; and it was not

possible to continue in full degree the comprehensive surveys of employment to ensure the proper payment of contributions, which were normally the outstanding feature of the inspectors' work.

#### IV. OTHER WAR-TIME ACTIVITIES OF THE NATIONAL HEALTH INSURANCE COMMISSIONERS

THE Commissioners were able to assist the national cause in the inception or furtherance of various war activities which did not *per se* fall within the ambit of National Health Insurance, but in regard to which its machinery could be of special service.

##### *Medical Treatment of Persons employed in Works of War Construction.*

Upon the outbreak of war the War Office commenced the construction of hut camps, on Salisbury Plain and in other military centres, for the accommodation of the newly enlisted armies during their training. For this work thousands of workmen were obtained from all parts of the country, their temporary dwellings converting thinly populated areas into dense centres of activity; and arrangements were necessary for the provision of adequate medical facilities for the workmen employed. Had all the men been eligible for medical benefit under the Health Insurance scheme, the problem would have been comparatively easy of solution; but this was not the case. An arrangement was therefore made whereby medical treatment was provided for all and sundry by the insurance authorities, the cost of treatment of those men who were not entitled to medical benefit being borne by the War Office. An indisposed workman had therefore merely to present himself at the medical hut of his construction camp to receive treatment from the doctor in attendance there, the question as to whether the Insurance Commission or the War Office was financially responsible being left for subsequent investigation. The arrangements for the attendance of doctors and the pro-

vision of treatment were in the hands of the local Insurance Committees.

- Similar arrangements were made in the case of large bodies of workmen engaged in the construction of factories under the Ministry of Munitions.

*Scheme for Free Medical Treatment of Sailors' and Soldiers' Dependants.*

The Insurance Commissioners participated with the British Medical Association and the Pharmaceutical Society in the operation of a scheme for the provision of free medical services to those dependants of sailors and soldiers who were in need, medicine and surgical appliances being supplied to applicants at cost price. The whole charge of this scheme was borne by the National Relief Fund. The Naval and Military Dependants (Medical Treatment) Committee, consisting of representatives of the three bodies previously mentioned, enlisted the support of doctors and chemists in all parts of the country, and the scheme was administered by the Local Representative Committees set up for the prevention of relief of distress, in conjunction with the local branches of the Soldiers' and Sailors' Families Association. These bodies were supplied with 'medical books' for distribution to dependants of sailors and soldiers who were unable to pay for treatment; these books contained the names of the doctor and the chemist to whom the applicant was to apply, and a number of prescription forms which after use were detached and sent to the Pharmaceutical Society. Here they were priced and passed to the Naval and Military Dependants (Medical Treatment) Committee for payment from the funds supplied by the National Relief Fund authorities.

The scheme was in operation for nearly two years, ceasing in August 1916 upon the transfer to the War Pensions, &c., Statutory Committee of the functions of the National Relief Fund in relation to distress among sailors' and soldiers' families. In that period 400,000 medical books were issued, the number of prescriptions dispensed being considerably over a million.

*Approved Societies and the War Loans.*

Approved Societies were given every encouragement to support the national cause by placing in the War Loans the moneys issued to them by the Commissioners for investment, and instruction was provided on the subject of the purchase and conversion of bonds and stocks. Departmental activities in this connexion were not confined to funds arising under the National Insurance Acts. Many friendly societies and trade unions had uninvested funds of considerable amount, and it was decided to bring to the notice of these bodies the opportunities which presented themselves for investment in the War Loans. Correspondence was entered into with each of the thousands of societies and unions of whose existence there was official knowledge, the work being directed by the Chief Actuary to the National Health Insurance Joint Committee and by the Registrar of Friendly Societies. As a result of this enterprise considerable sums were invested in the new securities.

*Maintenance of Medical Supplies.*

The National Insurance authorities were entrusted during the war period with the responsibility of maintaining the country's drug supplies, both for use at home and for the needs of the Army Medical Services. Consideration had to be given to the problem of replacing by home production the large quantities of drugs formerly imported from enemy countries, and the co-operation of certain members of the Royal Society was enlisted both in procuring the supplies immediately necessary, and in encouraging drug production on a larger scale in this country.

*Medical Research Committee.*

Reference may be made here to the activities of the Medical Research Committee. This body, with the Advisory Council for Research, was established to administer the parliamentary grant for research purposes and was responsible to the National Health Insurance Joint Committee. The schemes which had been framed by the Committee under conditions of peace were



largely suspended, the Committee placing their resources at the disposal of the authorities responsible for the conduct of the war, and devoting their attention to medical questions of national urgency. As a result of their activities valuable advances were made in the study of infected wounds and of antiseptics, of typhoid, cerebro-spinal fever, and other diseases.

On the formation of the Ministry of Health, the Committee was reconstituted as the Medical Research Council, responsible to a specially formed Committee of the Privy Council. This is not the appropriate place to discuss the work of the Committee in any detail, but tribute must be paid to the intense labours of its members in the development of medical and surgical science to meet the pressing needs created by the war.

#### V. PROBLEMS OF THE ARMISTICE PERIOD

THE conditions of stress under which the administration of National Health Insurance was carried on during the war were followed, after the Armistice, by the manifold problems attendant upon the return to civil life and the reinstatement in ordinary insurance of large numbers of members of Approved Societies, and the changes in conditions of employment involved in the cessation of war activities at home; while the preparations for the first valuation added their quota to the volume of work with which Approved Societies had at this period to cope. Special mention may perhaps be made of the duties placed on societies by the introduction at the end of 1918 of the Out-of-work Donation Scheme to make provision for ex-service men and women, and also for civilian workers, against unemployment during the transitional period following the close of the war. A condition of the grant to civilian workers of insurable age was their ability to show, by the production of National Health Insurance cards, that they had been employed contributors at least three months before the inception of the new scheme; with the result that Approved Societies were inundated with appeals for assistance in establishing the position of persons who, through their own previous neglect, were unable to produce the necessary proofs of insurance. The services

which societies were able to render in this connexion were of great value in the administration of the donation scheme. The attention of societies had also to be directed to the arrangements made to prevent recipients of the donation from falling into arrears in respect of their insurance. To obviate this contingency the contribution cards of persons drawing the donation were impressed week by week with official record stamps, which were treated as ordinary contributions in determining the insured person's title to benefit and the amount of the contribution moneys to be claimed by Approved Societies from the central department. The amount of these 'notional' contributions was provided by the Exchequer.

#### VI. THE EFFECT OF THE WAR ON APPROVED SOCIETIES AND THEIR MEMBERS AS REFLECTED IN THE VALUATION RESULTS.

##### *Valuations of Approved Societies.*

One of the most important provisions of the 1911 Act was that which prescribed a triennial valuation of the assets and liabilities of every Approved Society and of every branch of an Approved Society transacting National Insurance business as a separate unit. Under normal conditions the first valuations would have been made as at 31st December 1915, but the circumstances of the time rendered a postponement inevitable.

##### *First Valuations—as at 31st December 1918.*

Upon the cessation of hostilities at the Armistice, the necessary machinery was set in motion for a valuation as at 31st December 1918. The Approved Societies and the Insurance Departments were still working with the depleted staffs which military necessities had enforced upon them, and, notwithstanding this, the postings to the membership registers and the completion and audit of societies' accounts, which had inevitably fallen into arrear during the war, had now to be carried through in a much shorter space of time than would normally have been available.

The valuation of each of the Approved Societies and branches recognized as separate units (numbering over ten thousand) was carried out, with what dispatch was permitted by these somewhat untoward circumstances, by professional officers of the Government Actuary's Department appointed as 'valuers' by the Treasury in accordance with the Act of 1911.

The vast majority of valuations disclosed a surplus, and it was in most cases possible to declare some part of this surplus as immediately available for distribution to members in additional benefits. With the issue of each valuation report advice was given to the society or branch as to the various ways in which that part of the surplus certified as disposable could be utilized for the further benefit of its members.

While the rationale of the periodical valuations is the necessity for the application of actuarial tests to the workings of the National Health Insurance system, the main interest of this first investigation, from the point of view of the present volume, lies in the fact that its results display the effect upon the financial position of Approved Societies of the special social and economic conditions experienced during the war by the insured community.

### *Membership of Approved Societies.*

Statistics of changes in the membership of Approved Societies during the period October 1913–December 1918 are given in Table 2, p. 223. It is to be observed that while the proportion of men to women in insurance is approximately two to one, the recorded deaths among men during the period covered by the table were over seven times those recorded among women, and the net increase in the number of insured women, due to developments in the sphere of female employment necessitated by the conditions of war, was roughly twice the corresponding figure for men. Moreover—though the table does not show this—married women were responsible for nearly three-quarters of this increase, and their numbers increased during the period by 75 per cent. as against 5 per cent. in the case of unmarried women and widows.

*General Emergence of Surpluses.*

The outstanding feature of the valuation results themselves was the fact that in the vast majority—some 96 per cent.—of cases, surpluses were disclosed, the average amount of surplus per member in these cases being £1 1s. 8d., as compared with an average deficiency of 5s. per member in the few societies or branches whose assets were found to be insufficient to meet their liabilities. This general exhibition of surplus was largely due to the prevalence, during the war period, of conditions which favoured the emergence of profits on the original estimates. It will be convenient, therefore, to review in turn the several sources of valuation profit or loss as affected by war conditions. Tables will be found on pp. 223–225. General results for the whole body of Approved Societies will be dealt with throughout; it must be borne in mind that the experience of any individual society or branch may have differed widely from the average.

*Sickness.*

The fact that the total expenditure of Approved Societies on sickness benefit was well within the actuarial estimate (see Table 5) is to be ascribed to a variety of causes. Foremost among these must be placed the high degree of industrial activity prevalent during the war years; high wages and abundant employment seldom fail to exercise a beneficent influence upon the volume of claims for sickness benefit. The general determination to exert every effort in the national cause must also be presumed to have had a considerable effect; many competent observers feared a subsequent reaction, but all agreed that during the war the need for sustained industrial effort had overborne a mass of minor physical disability which in normal circumstances would have been productive of claims upon the societies.

The arresting influence of the influenza epidemic of 1918 upon the progressive decline of sickness benefit expenditure is apparent in Table 3, but it will be seen that the total claims

even of that year did not reach the high figures of the first two years in which benefit was payable.

*Disablement.*

With regard to disablement benefit, Table 3 shows that the claims of both men and women were rapidly rising throughout the war years, whereas Table 5 shows that the amount actually expended by the societies was considerably less than the sum for which provision had been made. These results might appear in some degree incompatible, but in fact there is no inconsistency, the explanation of Table 3 being found in the fact that the system of National Health Insurance had been established only a short time before war broke out. An inherent feature of disablement benefit is the gradual development of the liability from the date at which the benefit is introduced until the insured community is in a more or less stationary condition and claims in respect of continued sickness are emerging at a normal rate. The benefit first became payable in July 1914, and the cost has continuously and inevitably increased from that year onwards. The rate of increase has not, however, been such as was expected and it is to be presumed that influences set up by the war have definitely retarded the growth of the claims and thus have resulted in the greater part of the saving shown in Table 5.

*Maternity Benefit.*

A comparison of the actual payments made by Approved Societies in respect of maternity benefit to the wives of insured men and to employed women is of interest as reflecting the results of the reduced birth-rate during the war. The actual benefit payments are seen to be considerably less than those which an exact realization of the valuation conditions would have produced, the extent of divergence from the estimate being especially marked in the case of women's insurances. It is not improbable that to some extent the claims for maternity benefit will permanently be lower than the number provided for on the valuation standard, but there can be no doubt that the large difference in the years under review is in great measure a reflex of war conditions.

*Mortality.*

It may be thought that because the system of National Health Insurance does not provide a death benefit the financial position of Approved Societies cannot be affected by any question as to the death-rates among their members. This, however, is far from being the case. The actuarial basis of insurance against sickness and similar contingencies, in providing for the future claims for benefit, has to include assumptions as to the deaths that will occur in the insured community as its members pass from age to age. Should the mortality actually experienced fall short of the assumed standard, a loss is sustained, for the experience predicates the survivance of an abnormal proportion of the members to the older ages at which claims for sickness and invalidity benefits are heaviest. *Per contra*, an excessive mortality, by lessening the prospective number of survivors to the older ages, will react favourably upon a society's finances.

The records of societies show that the deaths of men under the age of 40 (i. e. broadly speaking, the deaths among men of military age) numbered 419,000 against an 'expectation', computed on normal conditions, of 212,000. While the difference between these figures is very significant it is certain that it fails to give a complete measure of the war mortality. There is reason to believe that the number of members of Approved Societies who lost their lives in the war is over half a million, and it has been established that many deaths on active service had not been recorded as such in societies' registers up to the time when the valuations returns were compiled.

The figures available are sufficient, however, to show that some part of the total surplus brought out by the valuations was due to the reduction of liabilities resulting from war deaths.

*Contribution Income.*

The financial basis of National Health Insurance assumes that contributions will not be paid in periods of sickness or

unemployment ; and it was therefore to be expected, in view of the low rates of sickness experienced in the valuation period and the high degree of industrial activity prevailing, that the actual receipts of contributions would show a substantial excess over an estimate based on normal conditions. This was found to be the case in the majority of societies. That it was not shown universally is due to special conditions affecting certain societies which need not be considered here.

### *Interest.*

The very large interest profit disclosed by the valuations was due to the excess over the valuation rate of 3 per cent. of the actual yield obtained on societies' invested funds. This, of course, was a direct result of the war. The original estimate was that the average interest yield, taking into account both invested and uninvested funds, would be 3 per cent. per annum. When war broke out the scheme of insurance was in its infancy and the accumulated funds were relatively insignificant. Depreciation of securities, so serious in its effects on long-established institutions, was thus a matter of little consequence. On the other hand, as funds accumulated—to the extent of several millions a year—the rates of interest at which they could be invested proved to be far in excess of the original expectation. This condition continues and bids fair to have a pronounced effect on the finance of National Health Insurance for many years to come.

### *Conclusion.*

The large amounts of the surpluses acquired by Approved Societies are evidently due in great measure to the special conditions set up by the war. It is sincerely to be hoped that a wise use will be made by the societies of the resources which these conditions have placed at their disposal. In one significant respect the war has diminished the utility of the system of National Health Insurance to the present generation. The results of the valuations, had the latter related to the experience of a period of normal conditions, would have formed a useful

basis for the prosecution of many promising inquiries into social conditions. These must now be postponed ; it is evident that substantial progress in this direction cannot be made until the experience of a period free from disturbances introduced by the war can be brought under observation.

Nor is the future outlook free from disquieting elements. Unemployment is widespread and still covers the industrial world with heavy clouds. Contributions for National Health Insurance have accordingly fallen seriously and great numbers of insured persons are heavily in arrears and subject, for the time being, to diminished benefits. But, indeed, for an Act of Parliament obtained in 1921 (the Prolongation of Insurance Act) great numbers would have wholly lost the protection of the system through inability to contribute. Not until normal conditions have returned, if even then, will it be possible to review the position completely and to form a balanced opinion on the consequences of the war to the useful and eminently pacific branch of social activity with which this memoir deals.

## FRIENDLY SOCIETIES

### INTRODUCTION

IN any attempt to review the history of friendly societies during the war, it must be borne in mind that the term ' friendly society ' covers an extensive variety of institutions which, although having in common the object of providing their members with certain benefits in times of adversity, differ widely in regard to the methods by which this purpose is achieved. Thus, while the predominating feature of friendly society work is the provision of weekly allowances during sickness and the payment of sums on death, the transactions of many organizations being practically confined to these two main forms of insurance, some societies provide in addition other benefits of a more special character in contingencies of less general incidence. Again, a feature of the friendly society system which has become very prominent in recent years is



the combination of mutual protection with individual saving. Thus, in addition to the many societies which transact life and sickness insurance in accordance with actuarial principles, there are the two large classes of 'deposit societies' and 'dividing societies', which provide similar benefits but conduct their affairs on quite different bases. The deposit societies may be said to combine the features of insurance with those of a savings bank, the surplus contributions, after payment of benefits and management expenses, being allocated annually to the individual accounts of the members, who may withdraw their deposits under certain conditions. In the case of the dividing societies the banking element is absent, and the responsibilities of investment are avoided. The contributions are fixed at substantially more than the expected requirements of the benefits, the balance of the resulting fund after all claims and expenses have been met (and subject to a small reserve) being divided periodically (yearly as a rule) among the members.

From the viewpoint of organization, friendly societies, other than those of the two special forms just described, may be divided into two main types. First in importance come the various fraternities of 'Oddfellows', 'Foresters', 'Rechabites', and so on, each consisting of local branches which enjoy such symbolic appellations as 'Lodge', 'Court', or 'Tent', and which are affiliated to each other to form the 'Order'. In societies of this type the primary contract with the member is generally made by the branch, while above the branch is the 'District', a body governed by representatives from the branches in each particular area. The functions of the 'District' are chiefly administrative, though it frequently acts as an instrument for the mutual re-insurance of the death-benefit contracts of its constituent branches. The 'Order' itself, the directing body of the society, is governed by representatives of the Districts. The functions of the Order, like those of the Districts, vary considerably in the different fraternities; for example, in some cases members are insured for death benefit, not with their Lodges or Courts, but in a Centralized Order Fund.

Next in importance to the Affiliated Orders there are the

centralized societies. A large proportion of friendly society work is carried on by these institutions, which, with headquarters in London or one of the large provincial towns, perform their transactions with members either by post or through local agents. In addition to these main groups there are some thousands of small societies whose operations are for the most part purely local.

A feature occasionally found in the operations of friendly societies is that of limitation of membership to persons employed in some commercial undertaking or engaged in a particular trade. The rules of other societies impose such qualifications for membership as total abstinence from alcohol, or adherence to some particular religious denomination.

The many points of difference which distinguish the various groups composing the friendly society system must be borne in mind in reading the pages which follow.

### I. THE POSITION OF THE ENLISTED MEMBER

THE matter of chief interest in our survey is that of the action taken by the societies to preserve the membership of those of their constituents who were called upon or who volunteered to serve in the forces. Few realized, at the outbreak of hostilities, the magnitude of the struggle to which the country was committed, and the leaders of the friendly societies, guided by the precedent of the special arrangements they had made in connexion with the South African War, proceeded to lay their plans on the assumption that they would have to deal only with a small proportion of their membership.

They were not, of course, under any legal compulsion to move, but patriotic manifestations were taking shape on every side and it was natural that that of the friendly societies should assume the fraternal form of assisting those of their members who were called upon, or felt impelled, to go out in the country's cause. Their action was practical also, for neither the soldier's pay (at that time) nor the conditions of his life were conducive to the maintenance of such purely civilian ties as were expressed in the regular remittance of contributions

to a friendly society; while the circumstances made it problematical at least as to what benefits he could derive, for the time being, from his membership.

With all these considerations in view, numerous societies undertook to pay the contributions of their serving members. To provide the necessary funds levies were imposed upon the civilian members or subscription lists opened to which they were asked to give; in some cases the relief accorded to the serving members was undertaken at the cost of the funds of the society, no other steps being taken.

It was, however, not long before circumstances rendered these methods of dealing with the situation impracticable; as more and more men joined the forces the maintenance of their contributions became a burden which the continually decreasing body of civilian members found it, in most cases, impossible to sustain, and an alternative method of procedure was required. To this end, therefore, many of the societies providing benefits in sickness and at death adopted the rule that members serving in the Navy or Army would not be held liable for contributions during their absence from civil life, and that death benefit, *but not sickness benefit*, should be payable on their assurances; while members serving in the Territorial Forces, or any of the bodies mentioned in Section 43 of the Friendly Societies Act 1896,<sup>1</sup> were allowed to take advantage of the rule if they so desired. A number of societies, however, adhered to the system of paying service members' contributions for them; and in certain of the Affiliated Orders procedure was not uniform throughout the Order, some branches continuing to pay their service members' contributions while others adopted a rule of the form outlined above.

In some societies levies on the civilian membership were again imposed to provide funds for the payment of death benefit in cases coming under the new rule; in many instances, however, the payments were simply made from the general funds of the society. The usual practice in the Affiliated

<sup>1</sup> This section of the Act protects the interests of members of friendly societies enrolled in naval or military volunteer bodies.

Orders was the spreading of the liability over the whole society by the formation of central funds raised by levies on the funds of districts or branches, payment of war death claims being made from the central fund. A large number of dividing societies combined to form the 'Federated Societies Life Insurance Fund' for the re-insurance of the death risks of their members on active service. This society completed its operations early in 1919, after an existence of over four years.

A few individual instances of the precise methods of treatment of their service members adopted by societies will be of interest.

The Hearts of Oak Benefit Society, finding that the plan of payment of service members' contributions was financially impracticable, adopted in 1916 the usual plan of relieving such members from the payment of contributions and of suspending their sickness benefit, unless they chose to continue their payments as usual. In 1918 the more stringent policy was adopted of requiring service members to pay the contributions for management and for all benefits other than sickness benefit; but as hostilities ceased within a few months of the enforcement of this new provision, its effect was small. It may be mentioned that the levy on members for the purpose (under the plan adopted at the outset) of paying the contributions of those serving had perforce to be continued to the end of 1920 in order to liquidate the deficiency which the employment of this method in the early years of the war had produced.

The Ancient Order of Foresters, after experimenting with the scheme of payment of service members' contributions, also adopted the usual rule, in conjunction with a system of re-insurance of war death risks. The Order itself repaid to its local organizations the death benefits claimed in respect of serving members or their wives, deriving the funds necessary for this purpose from levies upon the local funds based on their respective liabilities in respect of death benefits.

The Manchester Unity of Oddfellows at the outbreak of war imposed upon all adult civilian members a 'War Con-

tribution' of  $\frac{1}{2}d.$  per week for the purpose of paying the contributions of members serving with the colours; but, as in the case of the societies to which reference has already been made, the Unity was soon compelled to resort to the less generous alternative. The normal contribution was considerably reduced in the case of serving members, and the right to sickness benefit was suspended for the time being. Actually the serving members were freed from contributions altogether, the reduced amounts with which they were chargeable being met out of the levy on the civilian members, which for this purpose was continued throughout the war and for some time afterwards. As in the case of the Foresters, this society took another important step. It was impressed by the possibilities of the unequal incidence of the claims for death benefit upon the local funds, and arranged accordingly to spread over the whole organization a substantial part of the liability of local branches in respect of war deaths. This was effected by means of a 'War Mutual Liability Fund' maintained by a levy per head of membership on local funds.

Many Oddfellows and members of other societies who possessed the option to do so elected to continue the payment of full contributions during their service with the forces, and thus maintain their title to all benefits; and presumably there must have been a considerable number of cases of payment of sickness benefit for prolonged periods to wounded or invalided men. One deposit society, which maintained throughout the war the scheme of paying the contributions of all members serving abroad, except those who preferred to continue their own payments, disbursed a considerable sum in this way. Incidentally it may be noted that the ever-increasing drain of death benefit drove this society to take the protective measure of requiring new members joining during the war period to give a written undertaking that the society should not be liable for payment of the amount assured in the event of their death as a result of naval or military service.

The practice of societies was general in providing for the automatic reversion to original status, upon return to civil

life, of men whose membership had been partly suspended during service, such men being reinstated in title to full benefits, subject of course to the resumption of contribution payments.

By the end of the war the various special funds set up to provide the contributions or benefits of serving members had, generally speaking, assumed insignificant proportions, due in some cases, no doubt, to the fact that the levies from which these funds were maintained were regulated from time to time to keep pace with requirements. In most of these cases the accounts of the special funds seem to have been closed and such balances as remained transferred to other funds of the society. One of the larger dividing societies, on the other hand (and there may be other similar instances), maintained its special fund after the conclusion of the war as an 'Ex-Service Members' Fund'; and another large society continued to levy its members in the years following the Armistice for the purpose of rendering assistance to the disabled.

Other societies found themselves less fortunately situated as a result of their efforts on behalf of their service members. We have already mentioned the case of the 'Hearts of Oak', in which the levy to provide the contributions of service members had to be continued long after the scheme had been abandoned in favour of a more practicable alternative. A further instance is afforded by the Independent Order of Rechabites; this Order adopted the plan of re-imbursing to its District funds the death benefits of serving members, collecting a levy for the purpose from its 'Tents', i. e. branches subordinate to districts. The sums so collected appear, however, to have been quite inadequate, as levies were, in 1923, still being paid to wipe out the heavy deficiency in which the Order was involved.

We may conclude this section of our subject with a few figures supplied by the societies concerned and indicative of the extent of their operations in connexion with their service members.

The Manchester Unity of Oddfellows estimates the number of its members, normally resident in the United Kingdom,

who served with the forces at approximately 200,000, or 25 per cent. of the corresponding membership. Levies on civilian members to pay the contributions of those who were serving totalled about £475,000, and a further amount of about half this figure was paid out from the Mutual Liability Fund in respect of members who lost their lives in consequence of the war. This does not, however, represent the full amount of the death claims resulting from the war, for only £8, or about two-thirds of the average death benefit, was re-insured with the central body under the scheme.

Of the members of the Ancient Order of Foresters in the United Kingdom 147,000 were in 1918 serving in the Navy or Army, this figure representing nearly 25 per cent. of the civilian adult membership. In the first year of the war the Order repaid about £40,000 to its local organizations in respect of contributions for members on service, and in subsequent years refunded death benefits to the extent of £214,000.

At its maximum in 1918 the number of members of the Hearts of Oak Benefit Society serving with the forces was nearly 83,000, or 20 per cent. of the total membership. Levies amounting in all to over £80,000 were required to pay the contributions of serving members under the plan originally adopted by the society, while up to the middle of 1921 the amount spent in claims in respect of these members was £170,000.

## II. THE GENERAL EFFECTS OF WAR CONDITIONS ON THE SOCIETIES

WHILE, as we have shown, considerable drafts were made upon the funds of the societies, and in some cases upon the pockets of their members, to meet conditions attributable directly to the war, it is not to be inferred that on the whole the position of the societies has been adversely affected by the consequences of the war. Apart from relief from sickness claims due to the temporary suspension of this benefit in the case of serving members, there appears to have been a considerable decline in the claims ; and at the time of writing, so

far as can be learned, these have not again risen to the pre-war standard, despite the return to civil life of many thousands of members to whom pensions have been awarded for wounds, injuries, or disease attributable to the war or aggravated by service conditions. This is an entirely satisfactory experience and confirms that of the system of National Health Insurance. Facts have disposed of the gloomy forebodings of those who predicted that to the normal horrors of war would be added a general and permanent lowering of the vitality of the industrial population, and a general increase in the claims upon sickness insurance funds.

In one respect the friendly society system has received a direct advantage from war conditions, and an advantage of such a character as materially to affect its future financial prospects. The general level of the rate of interest obtainable from new investments has been substantially raised, and as friendly societies are exempt from the liability to pay income-tax this gain has not been discounted, as it has in the case of the individual citizen, by the demands of the State. Depreciation of existing investments has, moreover, been a minor factor. The friendly societies have always invested largely on mortgages, both of property and rates, and have therefore escaped in respect of much of their funds, in respect, indeed, of the whole in thousands of cases, the heavy reductions in capital value which have been suffered by Stock Exchange securities. Increased rates of interest have been obtainable from many existing investments, and numbers of cases are discernible in which the considerable accumulations of the societies are producing from 1 to 2 per cent. above the pre-war level.

There is, indeed, little to be said and no anxiety to be expressed as to the marks of war upon the financial position of the British friendly societies. The real interest of the subject lies in the steps the societies took to adapt their undertakings to the circumstances of the time and to meet the practical requirements, in the sphere of insurance, of those of their members who were called upon to serve with the forces. It is hoped that the brief recital of those measures



here set forth will suffice to show that in their own limited sphere the societies acted not only with an adequate grasp of the needs to be satisfied but in a spirit to justify their traditional basis of fraternity. That this is so can hardly be gainsaid when it is realized that in one important instance, to which reference has been made, the civilian members taxed themselves to the extent of nearly half a million pounds in order to maintain the membership of their serving brethren free of contributions.

# APPENDIX

## NATIONAL HEALTH INSURANCE

TABLE 1

### THE GROWTH OF THE NAVY AND ARMY INSURANCE FUND

[With the exception of the column 'Number of discharged men' (taken from the Reports on the Administration of National Health Insurance and the Annual Reports of the Ministry of Health) the figures have been taken from the Annual National Health Insurance Accounts.]

Period	Number of discharged men entitled to benefit on 1st July	Benefits of discharged men						Benefits of serving men	Gross contributions	Balance in fund at end of period (exclusive of Reserve of Value credits)
		Sickness disablement, and maternity benefits	Sanatorium benefit	Sums payable to Insurance Committees						
				General Medical Benefit Fund	General Administration (I.C.'s) Fund	For sanatorium benefit				
15 July 1912-11 Jan. 1914	447	£ 2,245	£ 321	£ 95	£ 30	£ 961	£ 6,327	£ 110,650	£ 14,931	
12 Jan. 1914-31 Dec. 1914	563	3,321	912	115	37	797	7,827	96,251	133,502	
1915	1,952	7,619	804	483	153	1,954	12,758	189,139	292,809	
1916	8,960	22,391	5,074	1,984	624	4,203	17,450	286,507	445,186	
1917	22,468	35,158	1,966	4,803	1,505	9,881	22,878	297,511	601,667	
1918	35,600	58,647	208	8,269	2,587	25,430	25,061	321,360	904,798	
1919	69,319	82,465	473	14,524	4,561	21,668	17,334	187,100	814,614	
1924	27,881*	49,213	—	13,145	2,319	107	12,887	35,759	2,847,554†	

\* Membership largely reduced by cessations of insurance and by transfers from the Fund to approved societies.

† A valuation of the Fund as at 31st December 1924 showed a surplus of £1,424,000 and provision has been made for the transfer of £1,100,000 to the Exchequer.

The following tables are taken from the Report by the Government Actuary on the Valuations of the Assets and Liabilities of Approved Societies as at 31st December 1918. [Cmd. 1662.]

TABLE 2

SUMMARY OF CHANGES IN THE MEMBERSHIP OF APPROVED SOCIETIES BEFORE THE FIRST VALUATION DATE

			Men	Women	Total
No. of entrants up to October 1913 . . .			10,283,523	4,788,261	15,071,784
ADD :					
New entrants and re-entrants . . . . .	Men 2,519,841	Women 3,520,649			
Transfers from other Societies, &c. . . . .	566,015	304,064			
			3,085,856	3,824,713	6,910,569
DEDUCT :					
Deaths . . . . .	744,849	104,987			
Transfers to other Societies . . . . .	305,406	112,689			
Transfers to Deposit Contributors Fund . . . . .	3,678	1,421			
Cessations for other reasons	1,632,345	2,826,200			
			2,686,278	3,045,297	5,731,575
No. of members at 31st December 1918 . . .			10,683,101	5,567,677	16,250,778

TABLE 3

EXPENDITURE BY APPROVED SOCIETIES ON SICKNESS AND DISABLEMENT BENEFITS

Year	Men		Women	
	Sickness benefit	Disablement benefit	Sickness benefit	Disablement benefit
	£	£	£	£
1913 . . .	4,369,499	—	2,127,274	—
1914 . . .	4,952,840	143,283	2,070,808	44,139
1915 . . .	4,333,554	607,167	1,672,752	255,851
1916 . . .	3,954,883	787,348	1,418,182	379,345
1917 . . .	3,782,302	869,606	1,399,767	443,814
1918 . . .	4,442,604	909,617	1,726,871	494,825

TABLE 4

VALUATION RESULTS. GENERAL STATEMENT OF PROFITS AND  
LOSSES ON THE BASIC ESTIMATES

Source of profit or loss	Profit		Loss	
	Men	Women	Men	Women
	£	£	£	£
Sickness . . .	4,964,000	1,622,000	228,000	57,000
Disablement . . .	3,559,000	209,000	12,000	100,000
Maternity . . .	1,321,000	413,000	72,000	7,000
Mortality . . .	162,000	13,000	1,206,000	619,000
Cessation of Insurance . .	1,686,000	1,855,000	—	—
Marriage . . .	—	666,000	—	4,000
Widowhood . . .	—	4,000	—	52,000
	586,000		2,912,000	
Contributions . . .				
Interest in excess of 3 per cent. . .	1,571,000		—	
Administration . . .	200,000		—	
Interest on valuation sur- plus or deficiency . .	1,214,000			6,000
Miscellaneous items . .	2,591,000			168,000
Total . . .	22,636,000		5,443,000	

TABLE 5

SICKNESS AND DISABLEMENT BENEFIT CLAIMS. COMPARISON OF  
EXPECTED AND ACTUAL PAYMENTS

(The amounts shown in this table are net sums after the deduction of State grants.)

	Sickness benefit			Disablement benefit		
	Expected	Actual	Percentage of actual to expected	Expected	Actual	Percentage of actual to expected
	£	£		£	£	
Men	24,280,984	19,544,318	80	6,124,349	2,578,125	42
Women	8,010,757	6,446,085	80	1,326,882	1,217,217	92
Total	32,291,741	25,990,403	80	7,451,231	3,795,342	51

TABLE 6

## MATERNITY BENEFIT CLAIMS. COMPARISON OF EXPECTED AND ACTUAL PAYMENTS

(Net amounts, after deduction of State grant.)

	Expected payments	Actual payments	Percentage of actual to expected
	£	£	
Men's insurances . .	6,297,389	5,047,822	80
Women's insurances . .	1,121,334	714,826	64
Total . .	7,418,723	5,762,648	78

TABLE 7

## COMPARISON OF EXPECTED AND ACTUAL MORTALITY (EXCLUSIVE OF AGES OVER 70)

	Expected number of deaths	Actual number of deaths (as recorded)	Percentage of recorded actual to expected
Men :			
Under age 40 . .	212,246	419,363	198
Age 40 and over . .	450,967	308,626	68
Women . . . .	180,477	103,276	57
Total . .	843,690	831,265	99

NOTE.—‘Expected’ payments or numbers, as shown in the foregoing tables, are respectively the sums for which provision was made, or the numbers expected to arise, on the basis of the Sickness and Mortality Tables employed in the Valuation.



**UNEMPLOYMENT INSURANCE  
IN THE WAR AND AFTER**

**BY**

**SIR WILLIAM BEVERIDGE**





## UNEMPLOYMENT INSURANCE IN THE WAR AND AFTER

THE outbreak of war in August 1914 found the scheme of Unemployment Insurance, embodied in Part II of the National Insurance Act of 1911, just settling down into regular operation.

This scheme was the first serious attempt at compulsory insurance against unemployment in any country in the world. It had no precedent; it had been introduced in face of many doubts as to whether unemployment could ever be treated successfully as an insurable risk; it was avowedly experimental, with a low scale of benefits and a scope limited to manual workers in a few specified trades—building and construction of works, engineering, shipbuilding, construction of vehicles, and saw-milling.

For each week of employment in these 'insured trades' a contribution of  $2\frac{1}{2}d.$  had to be paid by the workmen and an equal amount by the employer; these contributions were paid by the employer's purchasing a  $5d.$  insurance stamp, affixing it to an unemployment book carried by the workman, and deducting the workman's contribution from his wages. The State added one-third of the joint contributions of the employers and workmen, that is,  $1\frac{2}{3}d.$  a week or one-quarter of the total. All contributions were paid into an Unemployment Fund managed by the Board of Trade. The benefit provided was a payment of  $7s.$  a week for fifteen weeks in a year, limited further by the provisos that no one should get more than one week's benefit in respect of every five contributions paid by him, and that no benefit should be paid for the first six days of any period of unemployment. To obtain benefit the workman had to show that he was unemployed, able to work and not able to obtain employment; these conditions were applied in practice by requiring him to claim benefit at a Labour Exchange, to sign a register there daily during working hours,

and to accept suitable work offered to him through the Exchange on pain of losing his benefit. The machinery of administration was thus provided by the Government Labour Exchanges, established by the Board of Trade, under an Act of 1909, though there was a subsidiary provision allowing members of trade unions, which made arrangements for the purpose, to draw their State benefit through the union together with such benefits as the union provided.

The number of persons in the insured trades included in the compulsory State scheme was about two and a quarter millions, of whom only a few thousands were women. In order to encourage voluntary insurance, both outside the insured trades and for additional benefits within these trades, the State undertook to repay to any approved association of workmen one-sixth of any sums expended by it from its own resources on unemployment benefit. In practice the only associations making provision for their unemployed members and able to claim this grant of one-sixth were trade unions.

The scheme briefly described above had come into operation from July 1912 for contributions and from January 1913 for benefits. During the year and a half of full working, from January 1913 to July 1914, trade had been good and unemployment below the average; contributions had exceeded benefits and the Unemployment Fund had accumulated a balance of more than three million pounds.

The outbreak of hostilities on 4th August 1914 gave a shock to trade and industry. The percentage of unemployment in the trade unions rose from 2·8 at the end of July to 7·1 at the end of August; in the 'insured trades' the corresponding figures were 3·59 on 31st July and 6·28 on 4th September. An official fund for the relief of distress of all kinds due to the war was opened, under the presidency of the Prince of Wales, and drew large subscriptions. For unemployment a system of 'Emergency Grants' to trade unions was introduced; these grants were confined to societies qualified for the repayment of one-sixth under the National Insurance Act and were additional to such repayments.

The anticipation of widespread unemployment which led to these and other measures was soon dispelled. The drain of men into the new armies began in the first weeks of the war. It was followed by the demand of the munition factories for labour and still more labour. From the beginning of September 1914, unemployment began to fall ; by the end of the following January the trade union percentage had beaten all records for that month and was less than two, and by the end of July was less than one. The Emergency Grant scheme became practically inoperative after the end of 1914 and was formally ended in May 1915 ; altogether £88,000 was paid by the State under the scheme, nearly the whole of it for unemployment in the cotton trade during the first five months of war. For three and a half years the problem of unemployment vanished from public sight completely and all but completely in fact ; the trade union percentages of unemployment in 1916, 1917, and 1918 were 0·4, 0·6, and 0·8 respectively. The corresponding percentages for persons covered by the Unemployment insurance scheme were 0·6, 0·6, and 0·7.

Yet it is interesting to note, as a crucial instance of the irreducible minimum of unemployment, even in face of a large unsatisfied demand for labour, that the disappearance of unemployment was never complete. Throughout those years of war a measurable percentage of unemployment persisted ; throughout those years the trade unions and the employment exchanges found themselves paying benefit to persons unemployed, able and willing to work, and unable to obtain suitable employment. The benefit paid out under the limited unemployment insurance scheme in 1913, a year of good trade, was £412,000 ; and in 1914 was £627,000 ; the corresponding figures for the four years 1915 to 1918 (including from September 1916 those insured under the Munition Workers Act described below) were £167,000, £52,000, £49,000, and £84,000. The lowest for any month was £1,846 in October 1916. These figures were trifling in proportion to the income of the fund ; the number of persons paying contributions fell slightly as men joined the army in the first years of the war, but rose again as

men and women flocked into engineering and shipbuilding. The Unemployment Fund accumulated a reserve, rising steadily from £3,211,000 at the beginning of hostilities to £15,200,000 at their close.

The problem of unemployment, however, was not wholly forgotten. About two years after the war had started it seemed worth while to the Government of the day—the first Coalition under Mr. Asquith—to commission a few officials in the Board of Trade to consider the industrial problems that would arise when the war ended. The first fruit of their consideration was the National Insurance (Part II) (Munition Workers) Bill, extending unemployment insurance (i) to all workmen engaged ‘on or in connexion with munitions work’ in any trade (except such classes of work as might be excluded by special order), and (ii) to all workmen in certain trades—ammunition, explosives, chemicals, metals, rubber, leather, bricks—whether themselves engaged on munition work or not. Power was also given to extend insurance by departmental order to any trade or branch of a trade in which a substantial amount of munitions work or other work for war purposes was being carried on. The Bill was a temporary measure; it was to expire at the end of five years from 4th September 1916 or of three years after the end of the war, whichever of these dates was later.

This measure had a curious history. It passed through both Houses of Parliament without opposition and practically without comment, and became law on 4th September 1916. Then the difficulties began. The authors of the Act had in view at the end of the war a general dislocation of industry and the need for practically universal insurance; they framed a measure which under the guise of insuring munition workers brought in the whole of many trades and might have been extended by order to practically every trade, for no trade was without some munitions work. The House of Commons in 1916 was little interested in what would happen if and when the war ended. The employers and work-people engrossed in prosperity would not look beyond their noses. The extension of insurance so light-heartedly voted by Parliament met with

vigorous and successful resistance by one trade after another. The woollen trade might have been insured completely by an extension order, since it contained a large number of munition workers : the employers and work-people demanded that they should not be insured at all, and secured it by an exclusion order cutting out these munition workers. The cotton trade followed suit. The boot and shoe trade went one better. It was definitely within the Act as part of the leather trades and could not be excluded by order ; the employers and work-people went in for passive resistance ; they refused to work the Act or to pay contributions, and were retrospectively excluded by an Amending Act in 1917. In these and other cases the line taken was that the trades had unfilled orders enough to keep them busy for years after the war, and that if they did have unemployment they could provide for it much better by themselves than under the State scheme. None of the trades in fact made any serious attempt to frame schemes of their own ; employers and work-people were content to unite in purely negative opposition to officials and the State. The net result of the new Act was to bring into insurance 1,100,000 persons, of whom about three-quarters were women and girls. They were brought in at the old rates of contribution and benefit. In spite of the manifest and growing change in the value of money and the rise of money wages, proposals by the officials to increase the insurance contributions in order to give better benefits found no favour.

While endeavouring to provide for civilians, the Board of Trade was active also in regard to demobilization of military forces. As early as 14th December 1915 the Government of the day had announced their intention to grant to all members of the forces at the end of hostilities a free policy of unemployment insurance for a year. A scheme embodying this proposal with plans for registering men on demobilization and assisting them to find employment was worked out during the following year by the Board of Trade in consultation with the war departments, and was in an advanced stage of preparation, with most of the necessary forms and instructions drafted, in December 1916, when the first coalition Government fell and was succeeded by the second Coalition under Mr. Lloyd George.

The change of Government carried with it the partition of the historic department of the Board of Trade. Food and Shipping were taken from it temporarily to form new Ministries, which ran their course from 1917 to 1922. Transport was taken from it ; whether temporarily or permanently is still uncertain. Labour was taken from it permanently ; the formation of a Ministry of Labour was one of the promises which secured trade union support for the second Coalition. Of this new Ministry of Labour the joint service of Labour Exchanges (which by one of the last acts of the Board of Trade had been renamed ' Employment Exchanges ') and Unemployment Insurance formed in bulk by far the largest portion.

By 1917 it was becoming clear that the change from war to peace would be as tremendous as the change from peace to war. The new Government, while proposing to carry on the war with new vigour and increasing concentration, sought to provide for the peace by setting up a Minister and a Ministry of Reconstruction. A Committee appointed by this Minister reviewed the plans for demobilization of the fighting forces already drafted by the departments ; with a few changes they were adopted, and were ready to put into action when the need arose. To another Committee—the Civil War Workers Committee—was referred the task of considering and reporting ' upon the arrangements which should be made for the demobilization of workers engaged during the war in national factories, controlled establishments, in other firms engaged in the production of munitions of war, and on Government contracts, or in firms where substitute labour has been employed for the duration of the war '. The Committee appointed a Sub-Committee to consider the special topic of unemployment insurance, as means of providing at the end of the war for ' civil war workers '. This term was held to cover two classes : (i) persons on war work, i. e. persons engaged on work so closely connected with the prosecution of the war that the work itself might be expected to cease when the war was not being prosecuted, and (ii) war substitutes, i. e. persons replacing temporarily others who had joined H.M. Forces or taken up war work, so that on the return

of those others they would presumably be displaced, even though the work they were doing continued. The Sub-Committee came to the conclusion that any attempt to extend insurance simply to all 'civil war workers' as so defined was useless and impracticable. They dismissed also as very difficult to carry through and quite inadequate, if accomplished, any further extension of insurance to selected trades. They summed up their conclusions in the following paragraphs :

' 16. The problem of the "civil war worker" cannot be dealt with satisfactorily except as part of the larger problem of unemployment after the war. Nor can any limits be set to the extent of that larger problem. It is impossible to forecast the course or the incidence of unemployment in the reconstruction period. It is impossible to say of any trade that it will not be subject to dislocation at some stage or other.

' 17. The reconstruction period should be regarded as one in which all trades and occupations are subject to risk and, apart from and in addition to all special measures for preventing unemployment itself in particular trades, general provision should be made for prevention of distress through unemployment by seeing that everybody is insured against unemployment.

' 18. On these grounds we are satisfied that the only effective and adequate way of meeting the problem is by a scheme of general insurance designed to cover the whole area of employment. We think it probable that a general scheme, in spite of its magnitude, is likely to prove less controversial than any attempt to single out particular trades, while it makes certain, as no partial scheme would, of really covering all the ground and excluding the necessity for hastily improvised supplementary measures.

' 19. In this connexion it may be pointed out that if the scheme of partial insurance broke down either owing to opposition from the trades selected for inclusion or because unemployment proved not to be limited to the area covered by insurance, the whole principle of insurance must be seriously endangered. So far as hardship due to unemployment is not met by insurance, the Government of the day will inevitably be driven to fall back on "measures for the relief of distress" in other words on a system of doles. It will be impossible in the middle of a great crisis to improvise any satisfactory machinery for administration, and large sums will inevitably be spent in the least effective and most demoralizing way. At the same time, once it is clear that uninsured trades are entitled to public money for the relief of distress, it will be quite impossible to preserve the principle of contributory insur-

ance for the trades included under the present schemes. On practical administrative grounds, quite apart from any question of principle, the method of contributory insurance has the great advantage of providing an effective and automatic means of registering and selecting the individuals who require assistance.

‘21. We are of opinion, accordingly, that the Minister of Labour should be asked to frame definite and detailed proposals for general insurance and to give effect thereto as soon as possible. The necessary steps to this end should clearly be taken with the least possible delay. At this stage it is impossible to foresee how soon the problems of demobilization may become concrete and urgent realities. Unless a scheme of general insurance is devised and launched at the earliest possible date it may be impossible to avoid the disastrous chaos of unorganized and improvised methods of relieving distress.’

The Sub-Committee not only recommended immediate extension of unemployment insurance to practically all employed persons; in an Appendix they gave the outlines of a scheme for the purpose.<sup>1</sup> Their Report, dated 12th February 1918, was unanimously approved a month later by the main Committee, comprising employers, work-people, and officials. It fell on ears deafened in the desperate climax of the war. When, eight months later, the end of hostilities came suddenly, no action whatever had been taken on the Report, except to refer it to another Committee,<sup>2</sup> which in October 1918 repeated the recommendation of general insurance of all trades. At the Armistice of 11th November not more than one in four of the employed population was insured against unemployment.

Events followed faithfully the course foreshadowed by the Sub-Committee in the Report which has been cited. The scheme of ‘out-of-work donation’ for ex-service men and women which had been worked out in considerable detail, was put into force. For the civilian population nothing better seemed possible than to improvise a parallel scheme of civilian donation

<sup>1</sup> The Sub-Committee were directly concerned only with the reconstruction period, but realized that their proposals must affect the permanent scope and organization of insurance. Actually they proposed, as from three years after the end of the war, insurance without time limit, with authority given to the Minister of Labour, to exclude trades or occupations for which permanent insurance appeared undesirable.

<sup>2</sup> The Unemployment Insurance Sub-Committee of the Labour Resettlement Committee of the Ministry of Labour.



which replaced insurance for insured and uninsured persons alike. In design and administration this scheme exhibited inevitable flaws, and speedily acquired the name of 'doles'. There followed also, as is well known, a general relaxation of Poor Law administration and in some districts sheer extravagance in out-door relief. Into a 'disastrous chaos of unorganized and improvised methods of relieving distress' the nation duly descended.

The scheme of ex-service donation, as introduced, consisted in essence of the grant of a free policy of unemployment insurance entitling the holder to a maximum of 26 weeks of donation during the twelve months following demobilization (or following 25th November 1918 if he had been demobilized before). The qualification for grant of a policy was service in the Forces otherwise than as a commissioned officer, or, in the case of women, service as a mobile member (excluding officers and officials) of the Women's Corps who had enrolled under one of the fighting services for the duration of the war. The benefit was originally 24s. to a man and 20s. to a woman (with 6s. for the first child and 3s. for each additional child), but these rates were almost immediately raised by 5s. in each case, and an extension of benefit for 13 weeks at a lower rate—making 39 weeks in all in the twelve months—was granted. After the first twelve months the scheme was renewed from time to time, at the lower rates of 20s. and 15s. without children's allowances. It ended at last on 31st March 1921, nearly two and a half years after the Armistice. The scheme was administered through the Employment Exchanges, and the conditions for receiving donation were practically the same as those for receiving unemployment benefit.

The scheme of civilian donation, though no preparations had been made for it beforehand, was improvised in a few weeks, was brought into force on the same day as the ex-service scheme (25th November 1918), and remained in operation for exactly a year. It was modelled closely on the ex-service scheme, with similar benefits though for a shorter period, fixed ultimately at a maximum of 26 weeks in twelve months. There was

between the two schemes one fundamental and inevitable distinction. The classes qualified for ex-service donation could be defined exactly ; there could be no equally satisfactory definition of the civilian classes who ought to get and who needed free insurance. Originally all British subjects insured under the National Health insurance scheme, and also all British subjects who had entered employment at least three months before 25th November 1918, could claim donation when unemployed. Later the right was limited to persons who had been employed for at least 20 weeks in 1918, and later still (as from 25th May 1919) to persons who could show to the satisfaction of a ' Local Employment Committee ' that they were normally in employment, genuinely seeking employment, and unable to obtain it. Special measures were taken to deal with particular abuses or forms of evasion as they arose. The scheme was brought to an end on 24th November 1919.

The administration of this scheme was the target of much popular criticism, which found expression in the press, in *obiter dicta* of police magistrates, and in resolutions of poor law authorities. The irresponsible and idle character of most of this criticism was effectively shown by an independent Committee of Inquiry, under the chairmanship of Lord Aberconway. The Committee invited the public bodies which had passed resolutions of criticism to supply details and give evidence ; only one agreed to give evidence, and most said that they had passed their resolutions on general grounds or at the request of some other authority.

The Committee reported that there was no ground for supposing that there has been extensive fraudulent abuse of the scheme, and commended the work of the Employment Exchanges in making the best of a very difficult task. The scheme was admittedly defective at the outset, but ' when account is taken of the difficulties with which the Department had to contend, the process of adopting additional safeguards in order to eliminate abuse of the scheme was carried out on the whole as speedily as could reasonably be expected '.

The number of donation policies issued was something over

six million (3,653,000 ex-service and 2,492,000 civilian). The expenditure, including administration, was £67,000,000 (about £44,000,000 for ex-service and £23,000,000 for civilian donation). The number of policies 'lodged', representing roughly the numbers claiming donation as unemployed, rose from 381,000 at the beginning of January 1919 to a maximum of 1,093,000 (381,000 ex-service and 712,000 civilian) at the end of April, and fell to 479,000 at the end of October, the last full month of civilian donation. Ex-service donation continued till the end of March 1921, at which date there were still some 279,000 policies lodged. By that time the general scheme of unemployment insurance, under the Act of 1920, was in force and the bulk of the ex-service men still unemployed became qualified for benefit thereunder.

Ex-service donation was simple in itself and had been organized with some forethought. A less cheerful picture is seen, in considering the course of unemployment and the development of unemployment insurance itself after the Armistice of 11th November 1918. The demobilization of the fighting forces was a gradual process, and did not begin seriously to affect the labour market till the following March. The demobilization of the munition trades was more rapid. By the end of 1918 more than 350,000 civilian donation policies were lodged (as compared with 24,000 ex-service policies), and two months later the maximum of 782,000 was reached. Then, as more and more ex-service men returned, displacing substitutes, the position was eased by trade revival. For a few months it looked as if the rosy anticipations of the trades which had rejected unemployment insurance in 1916 were going to be fulfilled. The gaps left in our peace equipment by five years of neglect were revealed and had to be made good. Urgent work suspended during the war was resumed; orders placed but unfulfilled were put in hand; prices rose and produced a boom; the trade union unemployment percentage in 1919 was only 2·4, and for the first seven months of 1920 averaged less than 1·6. Once again transient prosperity stood in the way of effective forethought for coming distress. It was thought possible to bring

the civilian donation to an end in November 1919 before anything had been erected to take its place. Time was found for the lucubrations of two more Committees on the subject of unemployment insurance. A Committee of the National Industrial Conference summoned by the Prime Minister in February 1919 agreed that insurance should be universal, but failed to agree as to its main principle; the workers' representatives demanded that there should be no contributions from the workers. An Inter-Departmental Committee of officials was then set up to frame a scheme and framed one, as they might have done at any time since 1916. In December 1919 a Bill based on their proposals was introduced, but could clearly make no progress in that session. In the following session the Bill was reintroduced; after a slow beginning it made rapid and practically unopposed progress under the shadow of coming depression. It passed into law on 9th August 1920 and came into force on 8th November following.

By the Act of 1920 insurance against unemployment was extended to all employments except agriculture and private domestic service; the number of persons so insured in Great Britain was about 11,250,000. The scheme of insurance was in all important details the same as that under the original Act of 1911; the statutory conditions and disqualifications for unemployment benefit were repeated almost literally. The important rule limiting the total benefit that could be drawn by reference to the number of contributions paid was retained, though the proportion was altered, from one week of benefit for every five contributions, to one for every six. As new entrants into insurance could under this rule have no claim to substantial benefit for some time, it was provided that during the first year of the scheme insured persons might receive eight weeks' benefit as soon as they had paid four contributions. The 'waiting time', i.e. the six first days of each period of unemployment for which no benefit was payable was altered to three days. The rates of contribution were raised somewhat, to a total of 10*d.* a week for men and 8*d.* for women from employer, employee, and State together, and the benefits were

raised rather more, to 15s. a week for men and 12s. a week for women. A few minor provisions of the first Act—such as the refunds to employers in respect of continuous employment—which had given more trouble than they were worth were dropped; as also was the provision for assisting voluntary insurance through associations by a grant of one-sixth of the expenditure incurred. The only new proposal of any importance in the Act of 1920 was the provision allowing for contracting out of industries prepared to frame and administer their special schemes; this section has been almost wholly inoperative, being formally suspended since July 1921.

The generalization of insurance came too late to have any chance of meeting the needs or being carried out according to plan. Before November 1920 an overwhelming depression of trade, following the brief boom, was already upon us; once again, as two years before, the staff of the employment exchanges were thrown without preparation into the breach and compelled to make the best of an impossible situation. The trade union percentage of unemployment rose to 5·3 in October 1920 and 10·0 in the following March. The coal dispute sent it up to 23 1 in June; the settlement of the dispute brought little relief; for twelve months from July 1921 the average was over 16·0, and the percentage fell only slowly to 14·0 at the end of 1922. These movements were reflected in the work of the Exchanges. At the end of November 1920 there were half a million persons wholly unemployed on the registers of the Exchanges; two months later they had doubled, while another 600,000 were on systematic short time and claiming benefit. The number registered as unemployed on 28th January 1921 (i.e. all those wholly unemployed and those of the short-time workers who were actually idle on that day) was 1,276,577. By the 3rd June, with the coal dispute added to trade depression, the number had doubled and stood at 2,580,429. This was high-water mark; apart from a big seasonal rise each winter the figures sank steadily but slowly to 1,885,478 at the end of 1921, 1,511,377 a year later, and 1,285,623 at the end of 1923. At the beginning of June 1924 they reached a minimum at 1,002,915.

A falling off of employment combined with changes of administration raised them again to 1,307,000 at the beginning of 1925. During the first nine months of that year they fluctuated uncertainly, but in October began a slight improvement of trade which has brought them to 1,174,000 at the end of November 1925.

The meaning of these figures may be judged by a few comparisons. Five per cent. of the insured persons, a good high average figure to take for unemployment in good times and bad, would be under 600,000. The highest trade union percentage of unemployment previously recorded was 10·7 for 1879, with less than 7 per cent. just before and after, while now we have had four years, 1921, 1922, 1923, 1924 with percentages of 15·3, 15·4, and 11·5 and 8·1 respectively.

How a fully matured and established scheme of insurance would have fared in so unparalleled a crisis we shall never know; that the actual scheme survived at all is sufficient testimony to the ability and devotion of its administrators. It did not escape kaleidoscopic changes.

Within two months of coming into operation the Act of 1920 had to be amended; five more amending Acts were passed in the next eighteen months to July 1922, one in 1923, three in 1924, and one in 1925. The last brings up to twelve the number of unemployment insurance measures becoming law in five years. To describe in detail this shifting maze of legislation would only be confusing; it will be sufficient to indicate the main objects in view and the results obtained.

The chief matters calling for amending legislation were the position of those who had made few or no contributions, the rates of benefit, and finance.

It was a fundamental feature of the original scheme, continued in the Act of 1920, that the total number of weeks of benefit payable to any individual should be proportionate to the number of contributions paid by him. Such a rule, however, clearly assumed the starting of the scheme in a period of good or at least average employment, so that each man should have some chance of setting contributions to his credit before

unemployment became acute. Most persons insured under the Acts of 1911 or 1916 had in fact by November 1920 enough contributions to their credit to tide over long periods of unemployment. They formed, however, less than a third of all those covered by insurance. For the other two-thirds insurance began in a crisis of unemployment; a large proportion of them, being unemployed, needed benefit at once for long periods, and had no chance of making any contributions at all. The concession in the Act of 1920 of eight weeks' benefit on payment of four contributions was quite inadequate to deal with this position. It was first amended by a temporary Act passed on 23rd December 1920, and was later superseded by the system of 'uncovenanted benefit'<sup>1</sup> introduced by an Act of March 1921. The Acts of 1911 and 1920 provided a covenanted benefit, that is benefit to which, subject to fulfilment of prescribed conditions, the insured person who had paid the requisite number of contributions was entitled. Uncovenanted benefit was a discretionary grant which a person who had paid no contributions or had exhausted any claim based on contributions might obtain, on fulfilling the other prescribed conditions and on satisfying a Local Employment Committee that he was normally employed in an insured occupation, genuinely seeking whole-time employment in it, and unable to obtain it. A further requirement was introduced later, that the Minister of Labour should be satisfied in each particular case that the grant of uncovenanted benefit was expedient in the public interest; this requirement was used till 1924 and is being used again under the Act of 1925, to reduce or stop benefit to single men and women without dependants, to aliens, and in other cases. The first Act introducing uncovenanted benefit, that of March 1921, set up a 'special period' of 35 weeks ending 2nd November, within which a maximum of 16 weeks' benefit, whether covenanted or uncovenanted could be drawn; by an Act of July 1921, a further six weeks of uncovenanted benefit, making 22 weeks in all, was added. On the expiry of this first 'special

<sup>1</sup> The terms 'covenanted benefit' and 'uncovenanted benefit', though they do not occur in the wording of the relevant statutes, are in general use.

period' a fresh one had to be established by another Act; subsequent legislation was largely concerned with the renewal and definition of 'special periods', so as to make benefit of some sort nearly but not quite continuous. Finally, by the second Act of 1924 uncovenanted benefit has been made unrestricted in time.

The rates of benefit have suffered to extraordinary vacillations. The rate of 7s. a week provided in the original scheme had been raised to 11s. for men and women alike as from 25th December 1919. The Act of 1920 prescribed as from November 1920 rates of 15s. for men and 12s. for women. In March 1921 these rates were raised to 20s. for men and 16s. for women. On 1st July they were reduced to 15s. and 12s. On 8th November they were in effect raised again, being supplemented by an allowance of 5s. for a wife or housekeeper or invalid husband and 1s. for each dependent child. These dependants' allowances were authorized in the first instance for six months; they were continued by an Act of April 1922, but only so long as the existing rates of contribution were continued, i.e. till the fund should become solvent again. This last provision seems nonsensical and was repealed in 1923. The second amending Act of 1924 raised the rates of benefit to 18s. and 15s. respectively and the dependants' allowance to 2s.; these rates are still in force at the end of 1925.

The finance of the scheme has naturally given much cause for thought. The balance of £15,200,000 in the Unemployment Fund at the time of the Armistice grew in the next two years to £22,200,000; during the first half of 1919 payment of insurance benefit was practically suspended by the donation scheme, while, thereafter, till late in 1920 unemployment was relatively small, and donation, civilian and military, continued to keep the benefit payments down. This balance was taken over into the general scheme which came into operation in November 1920, and whose expenditure from the beginning largely exceeded its income. By the following July the balance had disappeared and the fund had to borrow from the Treasury. The contributions were raised in July and again in November,



when dependants' allowances were introduced, to the rates still in force, viz. 2s. 1 $\frac{3}{4}$ d. for men and 1s. 8 $\frac{1}{4}$ d. for women per week from employer, employee, and State together.<sup>1</sup> In spite of these contributions the fund continued at first to lose and its indebtedness to mount, till in March 1923 the debt stood at £17,060,000. By that time unemployment, though still high, was just past its worst; the income of the fund began to exceed its expenditure and the debt fell steadily, reaching £10,000,000 in April and £7,500,000 in June 1924. The contributions are admittedly higher than are needed over an average of years to provide unemployment benefit alone; the actuarial report on the main Act of 1924 contemplates a time when, the debt being paid off, a joint contribution of 1s. 6d. a week for men and 1s. 1 $\frac{1}{2}$ d. for women will cover the benefits, even at the points to which they are raised by that Act.<sup>2</sup>

The Labour Government in 1924 made a number of important changes, some of which have already been mentioned incidentally. In February the administrative restrictions on the grant of uncovenanted benefit to young men and women without dependants, aliens, and others were abolished, on the general ground that they were inconsistent with the principle of a contributory scheme. Two short Acts were passed, the first abolishing the 'gap' of three weeks then arising after 12 weeks of uncovenanted benefit had been drawn, and the second granting an extension of uncovenanted benefit to cover the summer.

These were followed by a more comprehensive Act, passed on 1st August. The basic weekly rates of benefit were increased as stated. The waiting time was reduced to three days. The trade dispute disqualification was amended with the object of qualifying for benefit the 'non-combatants' thrown out of work in establishments where a dispute takes place, and

<sup>1</sup> As from 1st January 1926 reduced rates come into force, under the Act of 1925, amounting to 1s. 11d. for men and 1s. 7d. for women. These reductions are connected with the new contributory scheme of pensions at 65, and the consequent cutting down of the right to unemployment benefit after that age.

<sup>2</sup> Under this Act benefit expenditure largely increased once more and the process of paying off debt stopped. In December 1924 the debt stood at £5,410,000; in November 1925 it amounted to £7,755,000.

of removing the disqualification if the dispute was caused by a breach of agreement on the part of the employer. Most important of all, the system of covenanted and uncovenanted benefit was remodelled. For the future all benefit was to be drawn as of right if the requisite conditions were satisfied; the discretion of the Minister to grant or refuse uncovenanted benefit was rescinded. There was first to be a period of 'standard' benefit, limited in proportion to contributions by the 'one in six' rule and further limited to 26 weeks in the year. An applicant exhausting standard benefit could nevertheless go on drawing benefit, under the name of 'extended benefit', without any limit of time proportionate to contributions or otherwise arbitrarily imposed.<sup>1</sup> One other important change made by this Act was to abolish for the future the refunds payable to workpeople who reached the age of 60 with a credit of contributions as compared with benefit. At the same time compensation for the loss of refunds for the past period was granted out of the Unemployment Fund on the basis roughly of the 'present value of expectations' to insured contributors aged 50 or over who had paid at least fifty contributions. If all persons entitled make claims it is estimated that the amount of compensation paid will be over £3,000,000.

The Labour Government of 1924 had to pass its legislation through a Parliament in which it had no majority. The House of Commons, as the price of assenting to concessions which it feared, and in order to make certain that the whole scheme should come up again for early review, inserted an amendment bringing all rights to benefit, whether standard or extended, to an end on 30th June 1926. This made fresh legislation in 1925 inevitable. By that time the Labour Government was

<sup>1</sup> This apparent grant of an unlimited period of extended benefit was limited by a new requirement, inserted as the first statutory condition for benefit, that no benefit at all, whether standard or extended, could be drawn unless thirty contributions had been paid since the beginning of the last insurance year but one. This requirement in turn was negatived by a power given to the Minister, and freely exercised by him, to waive compliance with the requirement. The Minister's power of waiving compliance, however, was in turn limited by time; under the main Act of 1924 it came to an end on 1st October 1925. But before that date arrived, the need for being able to waive the first statutory condition was felt to be so imperative, in the existing state of trade, that by the Act of 1925 the time limit was extended to 30th June 1927.

out of office ; the new legislation was largely devoted to direct reversals of policy. The waiting time was raised once more to six days, its original length under the Act of 1911 ; it has thus twice been lowered (1920 and 1924) and twice raised (1923 and 1925) in the past five years. While the grant of extended benefit was left unlimited in time, the Minister's discretionary power of refusing it altogether in particular cases was restored and is being exercised under rules very similar to those in force before 1924. In addition to these reversals of policy, somewhat complicated changes were made in the rates of contribution, mainly for the purpose of adjusting the scheme to the new system of contributory pensions for widows and old age. Here for the moment, at the end of 1925, the matter rests.<sup>1</sup>

### CONCLUSION

The foregoing account of the difficulties, complications, and changes of the unemployment insurance scheme, in the economic crisis following the war, must not be misread into a condemnation of the scheme itself. Those who criticize the 'dole' most freely are commonly found on inquiry to be innocent of any precise knowledge of their theme. To have to support 1,000,000 men and women in idleness is lamentable ; but in lamenting this it is well to remember that unemployment has to an extent not achieved in earlier crises been prevented from leading to destitution or disorder.

The main result of recent experience both during and after the war has been to confirm the value of contributory unemployment insurance as a measure for preventing distress through unemployment. In simplicity, generality, flexibility, and cheapness of administration it is unsurpassed. The British scheme, put to the test under circumstances of extreme and unnecessary difficulty, has stood the strain with remarkable success. To this general conclusion in favour of unemployment insurance two comments may be added.

<sup>1</sup> A Committee of Enquiry has just been appointed (November 1925) to consider, in the light of experience gained in the working of the Unemployment insurance scheme, what changes in the scheme, if any, ought to be made.

In the first place, it is about equally important and equally difficult to begin insurance against unemployment before a crisis of unemployment arises. It is important to be beforehand, not so much with a view to enabling the Unemployment Fund as a whole to build up a reserve, for the place of a reserve can at need be supplied by borrowing, as in order to let individual insured persons establish their claim by contributions, to set up the administrative machinery, and to get the staff trained in their duties. A rule limiting the total benefit that may be drawn by any individual by reference to the total number of his contributions is not indeed an indispensable element in unemployment insurance. But it is difficult, if not impossible, to suggest any equally simple and effective means for determining the persons who should get benefit, and the limits of their right, and at the same time giving to each and all a direct incentive to avoid unnecessary claims. The evil of 'donation' was that all could have it and nearly all felt bound to draw it whether they needed it or not, because it was a free gift and because they could not save it for the future. The whole psychological effect of insurance was lost. If unemployment insurance had been made universal early in 1918 or better still in 1916, the devices of 'donation' and 'uncovenanted benefit' would probably both have proved needless; a simple change in the proportioning rule, say, one week of benefit for every three contributions in place of one for every five, might have given all the flexibility needed to deal with the severest crisis. In any case the State would have saved much of its expenditure. The administration would have been free even of those few criticisms which were justly levelled against it.

Would it have been possible, however, in a world of ordinary human beings, concerned always with the present rather than the future, to have introduced unemployment insurance earlier than was in fact done? Quite obviously it could not have been introduced in 1916 without either disregarding the protests of employers and workpeople, or educating them by a lengthy course of propaganda for which neither politicians nor officials had time. In 1918, when the reactions and risks of reconstruc-

tion were already becoming obvious to all, a fresh attempt might probably have been made by the Government with more success. The history of unemployment insurance in the war, however, only repeats the history of fifty years before the war. A dominating factor in the problem of unemployment has always been the inability or refusal of practical persons to exercise forethought in relation to it, or to realize the inevitability of cyclical fluctuation and the certainty that prosperity will give place to depression.

In the second place, the experience since the war has amply shown the inadequacy of insurance as the sole measure for dealing with unemployment. The giving of money to able-bodied men and women who are standing idle is for various reasons, some bad and some good, repugnant to public opinion. To quote what I have written elsewhere: 'Simple money payments, though often the best that can be done, are a bad best for the unemployed man; when his unemployment continues over months and even years, the inadequacy of mere insurance becomes glaring. The demoralization of having nothing whatever to do or think about each day becomes overpowering.' Unemployment insurance, that is to say provision for unemployment, must be accompanied by real efforts to prevent unemployment. Moreover, unemployment insurance should in the individual case at last come to an end; the benefit should be a means of tiding over temporary difficulties and not a pension for life. If at a certain point a man fails to obtain employment it must be assumed either that he is superfluous to his trade or to his country, or that he is unfitted by ability or character to obtain employment. The unemployment insurance agency must be connected on the one hand with agencies for emigration, and on the other with agencies for the relief and treatment of those who are unfit for work.

The danger of an effective scheme of unemployment insurance is less that it may demoralize the man who gets benefit and cause him to give up the search for work, than that it may demoralize the Government of the day and cause them to give

up the search for remedies. It may make it easy even for a Labour Government containing Mr. Sidney Webb to neglect his teachings, to forget about decasualization and the organization of the labour market and the smoothing of seasonal and cyclical fluctuations by distribution of public contracts, and to take the easy road of perpetually extending relief.

# THE NATIONAL SAVINGS MOVEMENT

BY

SIR WILLIAM SCHOOLING, K.B.E.





## THE NATIONAL SAVINGS MOVEMENT

THE war had not been long in progress before it became clear that some anticipations held at the commencement would prove to be incorrect. At the outset it was contemplated that there might be a large amount of unemployment, and as an example of this fear it was provided by the Courts (Emergency Powers) Act, passed in 1914, that industrial life policies should not lapse in the event of premiums remaining unpaid. Instead of these expectations being realized employment became general, wages rapidly increased, and the incomes of families of the wage-earning classes became vastly larger than they had been before.

It was soon recognized by the more intelligent that the goods and services at the disposal of the nation were not being used to the best advantage for the purposes of the war. People were demanding for their personal use material and labour which were required for the fighting forces, many of whom had been withdrawn from industry. Attention was called to this problem in a notable letter to *The Times* signed 'A Banker', the publication of which was followed after a short time by the formation of a voluntary society called 'The United Workers'. This was largely promoted by the group of men who are responsible for *The Round Table* review. The Society met frequently for the discussion of financial and economic questions, and from time to time held public meetings at various centres throughout the country. It had some influence upon Government action and, when the Savings Movement was inaugurated, many of those who had been associated with the United Workers became active in the new development. They were not only ready to work but they were familiar with the doctrine of 'Goods and Services', upon which, as we shall see, the permanent success of the movement largely depended.

In this way, and with the assistance of the press, the subject of the right use of goods and services received an

increasing amount of attention ; it also became apparent that wage-earning families had large incomes, and that it would be of national and personal advantage if contributions to War Loans of various kinds were made from this source.

A Parliamentary War Savings Movement was started which did not prove a success, and in November 1915 a Committee on War Loans for the Small Investor was appointed, with Mr. E. S. Montagu as Chairman. The report of this Committee was made on 26th January 1916 (Cd. 8179).

The Committee recommended the introduction of what became known as the 'War Savings Certificate', and made recommendations for organizing Savings Associations, to both of which matters detailed reference will be subsequently made. Not less important, and from some points of view much more important, were the comments of the Montagu Committee on the necessity for saving and for reduction of consumption by all classes. The Report says :

' We cannot too strongly urge on all classes of the community the paramount necessity of saving for the successful and efficient prosecution of the war, and we would emphasize the fact that saving in every item of expenditure, not necessary for the efficiency and health of the individual, is essential. . . . We desire to say that we think that little useful purpose will be served by our recommendations "as to investment in War Loans" unless other methods are taken to secure this end by drastic taxation calculated to curtail all unnecessary expenditure.'

Some of the things we need can be obtained from abroad :

' but by far the larger part must be produced at home, or paid for by services rendered by this country. Our necessities, therefore, can only be supplied by economizing the consumption of other things and so setting free labour and capital to produce what is needed for the war. . . . From the point of view of the community as a whole, economy of consumption amongst all classes in war-time is vital. From the point of view of the individual worker, self-denial at the moment will provide him with a fund which will be of great help to him in the difficult times which must inevitably follow the war. . . . It is to motives of patriotism rather than of self-interest that the Government ought and is entitled to appeal.'

The Montagu Report, the recommendations of which were

promptly adopted by the Government, constitutes the terms of reference for what became the National War Savings Committee and, subsequently, the National Savings Committee. The functions of the Savings Committee therein laid down are to impress upon all classes of the community the importance of the wise use of goods and services and to provide facilities for the small investor, and—we may repeat—‘it is to motives of patriotism rather than of self-interest’ that the appeal should be made. It will be seen in the sequel that in the difficult times of peace following the comparatively easy task during the war, the National Savings Movement is still basing its appeal on patriotic motives; still advocating the wise use of goods and services by all classes of the community, and still providing facilities for the small investor.

The Montagu Committee laid down as essential features of a suitable security for the small investor, that the money invested must be able to be withdrawn at short notice without any depreciation of capital; that the security should be such as could be safely kept by those who have no accommodation for the custody of valuables, and, as a subordinate consideration, that the return should be as good as is yielded to the large investor.

To meet these conditions the Committee recommended the introduction of the 15s. 6d. War Savings Certificate, which was first issued in February 1916. Within six years, over five hundred million of these certificates were sold.

The interest earned by these certificates is exempt from Income-tax and Super-tax, and the interest earned does not have to be included in any way in Income-tax returns.

In order to avoid loss of Income-tax it was proposed by the Montagu Committee that the sale of certificates should be ‘confined to persons whose total income from all sources did not exceed three hundred pounds a year’. After a short experience this limitation proved unsatisfactory.

It was not always easy to tell whether a person’s income was above or below three hundred pounds, and in a voluntary Savings Movement it proved unsatisfactory that many workers

with large incomes were unable to invest in the security which they were recommending to others.

On one occasion an application was received for certificates to the cash value of £70,000 for the wife and six children of a wealthy man, none of the nominal purchasers having an income of £300.

Considerations arising out of such conditions led in June 1916 to the abolition of the income limit, and it was decided that any individual, irrespective of the amount of his income, might purchase five hundred certificates and no more.

After the war certain gratuities were paid in certificates to members of the fighting forces, and it was decided that such certificates could be held in excess of the maximum of five hundred. It was also arranged that any number of certificates acquired by inheritance could be retained, although the owner of five hundred or more could not purchase further certificates.

Safe custody is provided for by the certificates being registered securities, the purchaser being required to give his signature on a counterfoil and subsequently on the form of application for repayment.

In view of the fact that certificates can be cashed on guaranteed terms, it was arranged that they should not be transferable except with the permission of the Postmaster-General. It was felt, particularly before the limit of five hundred was introduced, that if they could be readily transferred, especially if this could be done without expense, they might become a form of paper currency, which was regarded as an objectionable feature. Moreover, if they could have been easily passed from hand to hand, speculators could have made a large rate of profit out of them, provided the dealings could have been on an extensive scale and the certificates registered in the names of nominees. As will be seen subsequently, the rate of interest paid on certificates is nothing, or at a low rate, for the first year or two, but if purchased for their guaranteed value at the end of one, two, or three years, they could subsequently be realized by the purchaser at a large profit.

Another recommendation of the Montagu Committee was

that the rate of interest on Savings Banks deposits should not be increased from the  $2\frac{1}{2}$  per cent. which had long prevailed. The fact is that for short-period saving the Savings Banks are a more suitable and convenient arrangement than certificates, while for long-period saving the certificates are the better. Consequently there is no hardship for any class in retaining the Savings Bank interest at the old rate.

It was thought probable by some people that, as Certificates yielded interest at  $5\frac{1}{4}$  per cent. as against  $2\frac{1}{2}$  and  $2\frac{3}{4}$  per cent. paid by the Post Office and Trustee Savings Banks, there might be large withdrawals from the latter for the purpose of buying certificates. Although this may have happened to some extent, the statistics appended to this article show that the Savings Banks deposits increased to a very substantial extent.

From the outset the Savings Committee was careful to avoid any action calculated to prove detrimental to existing institutions for savings by the small investor. It was thought by some of those concerned that the Savings Committee would come to an end shortly after the termination of the war, and that consequently, with a view to future utility, all existing savings organizations must be maintained and encouraged. It is manifest that any sound method of promoting thrift is a benefit and not a disadvantage to other organizations of a kindred character.

We may now pass to the recommendations of the Montagu Committee in regard to propaganda and organization. The two most important were :

- ‘ (A) To appoint a committee to undertake propagandist work and to promote the formation of agencies and investment societies.
- ‘ (B) To set up a Central Committee to advise upon and approve the financial details of schemes for Investment Societies and to supervise their working.’

These two Committees, the Organizing and the Advisory, were nominated by the Lords Commissioners of the Treasury, and

held their first joint meeting in February 1916. They normally met separately, but conferences between the two Committees were frequently necessary, and in April 1916 they amalgamated under the title of the 'National War Savings Committee'.

The general suggestions of the Montagu Committee were followed, but as experience accumulated necessary modifications were made. The work of the National Savings Committee was limited to England and Wales, but the Scottish War Savings Committee was subsequently appointed and Committees were also established in Ireland. The account here given refers principally to the work of the National Committee in England and Wales.

Some extracts from the first annual report, dated 1st March 1917 (Cmd. 8516), illustrate the methods adopted:

'We decided at our first meeting that the appeal to save ought not to be confined to any one class but should be made to all whatever their income, and the National Committee decided to urge rich and poor alike, to forgo comforts and luxuries for the good of the nation. By a prominent display of posters denouncing extravagance, we were successful in promoting and stimulating public discussion on the economic aspects of the war.'

'The War Savings week in July 1916 gave a strong impetus to the Movement, and its success was only rendered possible by the combination of a vigorous publicity campaign with careful organization of personal effort. Full advantage has been taken of the help of newspapers, and the Committee has published a monthly journal as a useful means of communication with local Committees and Savings Associations.'

A very large number of meetings were held, but during the first six months of the Committee's existence both apathy and hostility were met with. Well-advertised meetings were often ill attended, and it was felt that the appeal, to be effective, must be supplemented by more intimate and personal methods. These details of the early development of what has since become a national movement are not without their interest. The inaugural meeting was held on 1st March 1916 at the Guildhall, London, and was addressed by various Cabinet Ministers. It is permissible to recall now that none of the speakers appeared to have read the Montagu Report, and that there was little or

no description of the real work which the Committee had to do. The most effective speech was made by Lord Kitchener, and it was his last public address.

Before describing the general organization of the Savings Movement as it exists to-day, some reference may be made to special efforts which were made from time to time. One of the most significant was the War Loan campaign early in 1917. This was organized by the Savings Committee at the request of the Chancellor of the Exchequer, and the most substantial help was given by the Local Authorities, Banks, Insurance Companies, and voluntary workers throughout the whole country. The brilliant success of this effort, which far exceeded all expectations, did much to consolidate and establish the Savings Movement.

This campaign was scarcely finished before the Food Controller invited the Savings Committee to organize an economy campaign to eliminate waste and to reduce the consumption of food-stuffs. Over one thousand Savings Committees took part in the work; four thousand public meetings were held; seventeen hundred series of cookery lectures and demonstrations were organized, and five hundred and forty-five food economy exhibitions were opened. This economy campaign met with a large measure of success and carried out most urgent work pending the organization of the Food Control Department which subsequently proved so effective. It was, however, outside the purposes for which the Savings Committee was established, and materially interfered with War Savings activities. These were fully resumed in the autumn of 1917. Apart from the work of educating all classes of the public as to the need for personal economy, the Savings Committee was principally concerned to extend the sale of Savings Certificates as the most efficient means of performing its second duty of providing facilities for the small investor. In October 1917, however, the Committee was requested to organize a special campaign to popularize National War Bonds which had lately been introduced. The Albert Hall, London, was filled with keen and energetic voluntary workers who were addressed by

the Prime Minister and the Chancellor of the Exchequer on general topics, but were given no encouragement and no guidance in connexion with the great work which they were undertaking. These workers, however, met at conferences among themselves, and realized in fuller measure than before that the successful conduct of the movement depended then, as it does still, upon personal intercourse and influence.

It was in connexion with the National War Bond campaign that tanks were exhibited in London and in some of the provincial towns, and proved an effective method of attracting public attention.

These special campaigns brought to the assistance of the Savings Movement a large number of temporary workers, the value of whose efforts was considerable, but for the most part they were unacquainted with the economic foundations of the movement. They were principally interested in obtaining the largest possible subscriptions to Government securities; were unfamiliar with the organization which had been established, and with the spirit and methods of the vast army of permanent voluntary workers throughout the country. These and other circumstances almost inevitably produced the widespread impression that the sole function of the movement was to sell Government securities.

A saner and more permanent view was taken by a strong Committee which was set up in June 1917 to consider the problem of saving by the small investor after the war. This Committee recommended the permanent continuance of the Savings Certificate, and of the Savings organization which covered the entire country. It pointed out that

‘the State has a very direct interest in promoting the widest possible holding of its own securities. The credit of the State is the credit of the individuals who compose it, and if the credit of these individuals can be improved, the credit of the State will be proportionately improved also. Again, the wider diffusion of the holding of State securities should mean an increased interest in, and a greater sense of responsibility for, public finance and the maintenance of the national credit.’

This was the first official recognition of the permanent value



of the Savings Movement. It was particularly gratifying to those voluntary workers throughout the country who, even during the fever of Tank Weeks, Gun Weeks, and other special efforts, steadily maintained and advocated the wider view of 'goods and services'. These men and women pointed out the importance of the transfer of purchasing power from the individual to the State, and of the reduction of personal consumption.

We may return from these excursions into food economy and special campaigns to a consideration of the organization which has been established for permanent work. The fundamental unit of the movement is the Savings Association which collects money from its members. These Associations exist among groups of people that are in being for some other purpose, such as children in schools, employees in works, shops and offices, members of clubs of various kinds, and other kindred bodies. Each Association requires a secretary and a treasurer, and should preferably have a small committee. These Associations are affiliated to the National Savings Committee through local Savings Committees, and are allowed to hold an unlimited number of certificates for their members in blank, that is to say without the individual names of their owners being filled in, until the certificates are actually handed over.

This convenience is also provided for employers who, with their own money, buy blocks of certificates which their employees subsequently purchase by instalments. When an employer does this he can keep his accounts in his own way, and they are not subject to audit or inspection. He is required to be affiliated to the National Committee, and is asked to send returns of sales of certificates for statistical purposes. The employer loses the interest on his money during the period when the certificates are being paid for by instalments, but the interest earned is of benefit to the employees, by whom the plan is much appreciated.

The Savings work that is carried on in schools is of supreme value, particularly from the point of view of forming habits of saving with a view to wise spending in the future, and indeed,

in the present as well. No praise can be too high for the work which has been done by the teachers throughout the country both during the war and since. When, perhaps twenty years hence, the true significance of the Savings Movement in promoting national and individual prosperity and well-being begins to be adequately appreciated, it will be seen that the teachers have contributed more to this result than any other one class of the community.

The duty of the Local Committee is to serve as the National Committee for its area ; it should form as many new Associations as possible ; should supervise and stimulate the work of existing Associations ; should arrange for the audit, or inspection, of the Association accounts and, through the press, public meetings and personal intercourse, should endeavour to spread as far as possible simple economic teaching in regard to the importance of the best use of goods and services.

The work of the Local Committees is greatly assisted by close association with the Local Authorities. This has become of especial importance in consequence of two decisions in regard to the application of the money paid for Savings Certificates. It was arranged that as from 1st October 1920 half the money paid for certificates in any area could be borrowed by the Local Authority of that area for assisting Housing Finance. There was a great lack of houses, and although the national exchequer was responsible for the whole cost of financial assistance in excess of the product of a local rate of one penny in the pound, the Local Authorities were for the most part required to raise the capital. As from 1st October 1921 half the money received for certificates can be borrowed by the Local Authority for practically any capital expenditure on approved schemes. The Treasury retains the responsibility for meeting all certificates that are presented for payment, and the loan is repaid by the Local Authorities over a term of years approximately equal to the estimated ' life ' of the undertaking to which the money is devoted. Some of the larger cities can borrow money on more favourable terms than are charged for certificate money, but in the majority of cases this

new source for borrowing is of much value. The application to local purposes of money subscribed locally, but for a national security, is a departure of much significance in connexion with British finance. As a result of the war there has been a redistribution of income, and to some extent of capital, among different classes of the community. Many of the middle classes, and those in receipt of pensions, or of incomes from investments, are much less well off than formerly, while many of the wage-earning classes have been, and it is to be hoped will be, better off than they were before the war. They are able and willing to save, and the use of their money for local purposes is perhaps calculated to increase their interest in local administration.

It is seldom that investments in industry are suitable for the small investor, since being unacquainted with finance he may be persuaded to invest in undesirable securities, and might not be able to obtain his money in full and at short notice. Consequently a national security of the character of Savings Certificates is the most appropriate channel for his investments. In a town actively developing the Savings Movement, the sales of certificates may amount to an average of £2 per year per head of the population, thus providing an annual sum for local purposes equal to £1 per head of the population. In the long run no such amount is likely to be needed by most Local Authorities, but for the provision of works that give employment, and for undertakings which have been postponed on account of the war, much borrowed money will be needed by some authorities for the next few years. Were this source of capital not available the Local Authorities would have to obtain loans from the general market, and thus compete with industry for capital. If trade revives and capital becomes scarce this will be no inappreciable benefit to the industrial development of the country.

After a short time it was found that the money from certificates was not needed by the Local Loans Commissioners, but the sales of certificates still determine the amount a Local Authority is entitled to borrow.

Whether because of assistance to local finance, or the

increasing recognition of the social betterment that results from the spread of the Savings Movement, or for the two reasons combined, the Local Authorities are concerning themselves more and more with the Savings Movement. In towns the Mayor is commonly the President of the Local Savings Committee; members of the Corporation, or the Council, serve on it, and it is reinforced by prominent business men, representatives of the Savings Associations, and other public-spirited men and women.

In many places the Local Committees, not realizing the permanent social value of their work, came to an end, in fact, if not nominally, shortly after the war, and are only gradually being reconstructed. In other places, however, the work is being ably and actively carried on.

England and Wales are divided into twelve regions, in each of which a conference is held once a year. Two members of each Local Committee are nominated to attend the conference, which is generally attended by one or more members of the National Savings Committee and at which there are present some representatives of the head-quarters staff.

Each of these twelve conferences elects a representative to serve on the National Savings Committee which directs the whole movement. Each conference also selects a number of representatives, proportionate to the number of Local Committees in the area, to serve on the National Savings Assembly, which is a sort of Savings Parliament, and has usually met once a year since its formation.

When the Assembly was first constituted, about twenty-five conferences were held each year and only six or seven elected representatives served on the National Committee. In these circumstances the Assembly had the useful purpose of electing the representatives on the National Committee.

The plan of having elected members of the Committee worked so well that the number was increased to twelve. At about the same time it was decided, in the interests of economy and efficiency, to hold twelve conferences yearly instead of

about twice that number, and that each conference should elect one member of the National Committee.

In these circumstances the most definite function of the Savings Assembly came to an end, but experience showed that the discussions which took place and the decisions which were reached at these meetings of the Assembly were of considerable value to the movement. They brought together eighty to one hundred of the leading workers in the movement and, particularly when fresh developments were being made, as for example the intimate association with the Local Authorities, the discussions had much value and tended to promote the efficiency of the work.

The locally elected members of the National Committee and of the Assembly may in time come to constitute a kind of Local Board of Directors for their area and render valuable service in extending and stimulating the movement.

This work of local organization is greatly facilitated by the existence of a commissioner and sub-commissioners for each region, who are officials of the Savings Committee ; but however effective they may be they could make little progress without the co-operation of voluntary workers.

During the war large sums were spent on advertising, and doubtless as a result very substantial sums of money were obtained, but the steady progress of the movement and, in particular, its educational influence, depend upon the personal influence of the voluntary workers. The Savings Movement presents a happy and successful example of a great voluntary movement associated with a Government Department. The Chairman, Vice-Chairmen, and members of the National Savings Committee are unpaid, but the staff at head-quarters and the commissioners necessarily carry out the policy of the Committee, which directs the activities of the workers throughout the country. There is the initiative and flexibility of the volunteer, accompanied by the influence that attaches to a Government Department, from which, however, in this case rigid official methods are conspicuously absent.

It is not to be supposed that a large army of voluntary

workers would devote their time and energy to raising money, either for the National Government or for Local Authorities, if this were the sole purpose they were serving. They would say, naturally enough, that any money required could be raised through normal financial channels. This contention was in some measure true during the war, and it is even more so at the present time.

In a well-known passage in his *Political Economy* Alfred Marshall says, 'Man's character has been moulded by his everyday work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals. The two great forming agencies of the world's history have been the religious and the economic.'

It is because it is recognized that the Savings Movement can exercise a great influence over the economic 'forming agency', and thereby produce social betterment to a marked degree, that the voluntary efforts devoted to the work are so extensive and so successful.

The right use of goods and services has always been a prominent feature of the teaching of the Savings Movement both in war and peace. It is recognized that saving is a process which is indifferent in itself and is good or bad according to the purpose to which the savings are applied. It is probable that not less than one-fourth of the national income is spent by the population of the United Kingdom in ways which, while possibly giving temporary gratification, yield little or no permanent satisfaction. Individually and collectively, it would be advantageous for this large expenditure to be applied in the most sensible way, and it is the advocacy of more, but wiser, spending, with which the Savings Movement is principally concerned. People for the most part consider more carefully the expenditure of large sums than of small, and the large sums can commonly only be obtained by saving the small. Saving is a means to an end and not an end in itself. On examination it proves also that, speaking generally, the kind of expenditure which gives the most lasting satisfaction to the individual produces the greatest amount of employment.

If an individual saves £10 a year in Savings Certificates for seventeen years, he will have sufficient capital to yield, at the same rate of interest, £10 a year in perpetuity ; but, while he has been saving, his money has been spent by Local Authorities or others, has found its way into industry, and has promoted the development of trade and the increase of employment to a far greater extent than if the savings had been frittered away in temporary gratification. It is in consequence of the recognition, more or less vivid and complete, that activity in the Savings Movement is one of the soundest and most effective forms of social service, that it retains the enthusiasm of a vast army of voluntary workers.

At the same time it is both appropriate and necessary that so far as it is a Government Department, supported by a Parliamentary grant, its expenditure and its work should be critically examined. In spite of its great value as an educative influence, it is not unnaturally judged principally by a comparison between the amount of money raised and the expenditure incurred. Excluding certain expenditure not charged to the Committee, such as that of the Post Office for handling certificates, and the general expenses of advertising Government securities, the work of the Committee at the present time increases the rate of interest paid upon the mean amount of certificates in force, excluding accrued interest, by about 9*d.* a year on each £100 invested. If at the present time the expenses are compared with the number of certificates sold, it is found that they work out to about three-eighths of a penny for each certificate. Considering that in October 1923 the interest on certificates was reduced from £4 19*s.* 6*d.* per cent. per annum for ten years to £4 2*s.* 9*d.*, it will be seen how trifling is the expense incurred in proportion to the results achieved. For purposes of comparison it may be added that the allowance for expenses for Trustee Savings Banks is 7*s.* 6*d.* for each £100 on deposit.

Even when the expenditure of the Committee is compared with the Savings Certificates sold and in force, it is seen to be extremely moderate, but certificates alone do not represent

anything approaching the financial results of the activities of the movement. During the war, as we have seen, it was largely instrumental in obtaining very large subscriptions to securities of all kinds, from both large and small investors. The appended table, which shows the subscriptions since the beginning of the war which have been made by the small investor through Post Office issues of securities—disregarding issues through the Banks of England and Ireland—is testimony to the aid received from the small investor.

It is both appropriate and necessary that a movement which advocates wise economy should follow its own precepts. The National Committee appointed a Sub-Committee of its members to examine the details of the work and ascertain if any reduction in expenditure were possible consistent with efficiency. As a result various improvements were introduced, and a Committee appointed by the Cabinet, which subsequently scrutinized the work of the Savings Committee, reported that practically everything possible was being done and that the suggestions it was able to make were trifling compared with those which the Savings Committee had itself introduced very shortly after the war.

Its management was further considered by the Committee on National Expenditure, of which Sir Eric Geddes was Chairman. After quoting certain figures the Geddes Report continues :

‘ We are informed that this organization, which deals with the sales of Savings Certificates, is regarded as valuable by the Treasury, who hope that it will remain a permanent part of the financial machinery of the State. Its object is to encourage saving by offering special facilities to the small investor in Government Securities, and it aims at fostering a habit of saving which grew up during the war under the War Savings movement. Its usefulness has been strongly emphasized by two expert and authoritative Committees. . . .

‘ The Staff position has been carefully watched in order that the numbers might always be kept in strict proportion to the volume of business, and as a result of a recent review, it was expected that by the beginning of 1922–3 the staff will have been reduced to 204 (from 268 in August 1921).

‘ Apart from the Head-quarters staff, the work throughout the



country has been carried out by a large body of voluntary workers, numbering over 200,000 who carry on the work of 1,700 Local Committees and 25,000 Associations or Savings Clubs. Further new Associations are being formed at an average rate of 90 per month among Factories, Works, Schools, and social organizations.

‘We are of opinion that this system and organization bring in real savings very largely contributed from sources hitherto untapped and that it encourages thrift. In these circumstances, we recommend the continuance of the organization provided that the Head-quarter’s staff is constantly kept under review.’

From this consideration of the organization of the movement we may pass to an account of the schemes adopted by the Savings Associations which carried out the actual collection of the money.

It was recommended by the Montagu Committee that the original Advisory Committee should consider all schemes put before it, and sanction any which appeared to be sound. This course was followed at first, and out of a large number submitted a few were approved, but subsequent experience showed that great advantages attached to making the schemes to be adopted as few and as uniform as possible.

The task of examining the many schemes proposed was not without its humorous side. Hundreds of people seemed to be under the impression that they had a panacea for the financial difficulties of the nation. The great majority of course were hopelessly impossible, and it was not without interest to find, from the examination of the private papers of a Chancellor of the Exchequer of more than a hundred years ago, that many of the suggestions put forward during the great war were identical in character with those which had been made over a century previously.

For a short time the Savings Committee gave its approval to schemes for the purchase by instalment of War Loans and War Bonds, but in the long run these proved comparatively ineffective, and attention was concentrated on Savings Certificates. A feature of the schemes was payment by instalments, in which a slight advantage, which proved surprisingly popular, attached to ‘co-operative investment’ through Savings Associa-

tions. If, for example, thirty-one individuals began subscribing 6*d.* per week on 1st January, they could on that date buy one certificate. They could buy another certificate in each subsequent week, and each member would not have subscribed 15*s.* 6*d.* until the end of July. The result was that some members would receive certificates dated months earlier than the date upon which the payment of 15*s.* 6*d.* was completed.

One of these schemes for collecting sixpences and multiples of sixpence involved the use of Savings Bank Books and the keeping of an account for each member. The book-keeping was simple in character and presented no difficulty when the accounts were made up every week, but if, as often happened, the accounts were allowed to fall into arrears, some difficulty was experienced in making them balance. For the security of the small investor the service of voluntary auditors was invoked, but, especially after the war, there were many secretaries of Associations who were disinclined to continue this amount of clerical labour.

The objections to book-keeping were experienced during the war, and a scheme based upon sixpenny coupons was adopted; thirty-one coupons were stuck on a card and then exchanged for a certificate by the Savings Association through which the coupons had been purchased. This system reduced the book-keeping, but an audit of the accounts, or at least an inspection of the assets, was necessary.

After the close of the war a still simpler scheme was brought out. Sixpenny Savings stamps of a special design were introduced which are obtainable through any Post Office. Thirty-two (formerly thirty-one) of these stamps stuck on a card can be exchanged for a certificate at any Post Office in the United Kingdom. Credit stocks of these stamps can be obtained by Savings Associations for sale to the members. The benefit of co-operative investment, which has been referred to, attaches to the coupon scheme, and when conducted through Associations to the stamp scheme as well. When the secretary of an Association has sold thirty-two stamps to his members he can purchase a fresh supply of stamps from any Post Office, and at

the same time have a pair of date labels stamped with the date on which the stamps were purchased—say 1st January. On, perhaps, 1st May a member brings a completed card, which the Secretary can exchange at the Post Office for a Certificate. On this, and on the counterfoil which is sent to the Money Order Office, a date label is fixed, and the effective date from which the Certificate begins to earn interest is 1st January, when the secretary bought the stamps, instead of perhaps 1st May when the member completed the payment for his certificate. This scheme involves no account keeping, and merely a periodical inspection of assets in order to see that the secretary holds cash or stamps to the value of his credit stock.

These details are not without importance, particularly since the war, since the devising of suitable schemes is a more difficult matter than most people would think. Even the increased thickness of the counterfoils resulting from sticking on date labels has to be considered in connexion with the storing of millions of counterfoils at the Money Order Office in London. Opportunities for possible fraud have to be guarded against; the aggregate cost of the most trifling feature may amount to a large sum, and numerous other considerations have to be taken into account.

The savings of the small investor can be invested in War Loans and Bonds of various issues through the Post Office and Trustee Savings Banks, but the Government security with which the schemes here being described are concerned is almost entirely the National Savings Certificate, which was first issued in February 1916 on the recommendation of the Montagu Committee.

From February 1916 to March 1922 certificates cost 15s. 6d. each, and became 26s. at the end of ten years. The second series commenced on 1st April 1922, and continued till the end of September 1923; the price was increased to 16s. and the certificate became worth 26s. at the end of ten years.

A third series was commenced 1st October 1923. The price remained at 16s. but the certificate became worth £1 at the end of six years, instead of at the end of five, and at the end of

ten years its value was 24*s.* instead of the 26*s.* under certificates of the first and second series.

On Savings Certificates of the first series which cost 15*s.* 6*d.* each no interest was paid if the certificate was cashed during the first year. On the completion of the first twelve months the cash value increased by 3*d.*, and thereafter by 1*d.* a month up to the end of the fifth year, when an additional 3*d.* made the cash value £1. Originally it was a five years' security, but the period was extended to ten years, interest being allowed at the rate of 1*d.* per month, with an additional 1*s.*, making 26*s.* in all, at the end of the tenth year from the date of purchase. The price of the second series of certificates was increased to 16*s.*—a much more convenient price to deal with than the original 15*s.* 6*d.* No interest at all was allowed on account of the first year, but thereafter, throughout the whole lifetime of the certificate, the interest was 1*d.* per month with an additional shilling at the end of ten years, making the value at maturity 26*s.*

The third series of certificates, introduced on 1st October 1923, gives 3*d.* for interest on certificates that have been in force for a full year. Thereafter the interest is 3*d.* every four months, or 9*d.* a year, up to the end of the tenth year, when an additional shilling is added, making the value of the certificate at maturity 24*s.*

The rate of interest per cent. per annum yielded by certificates at the end of ten years is for the first series 5·309, for the second series 4·975, and for the third series 4·138. The rates of interest here quoted are those at which the purchase price, if accumulated at interest compounded annually, would amount to the cash value. Thus, a certificate costing 16*s.* or 192 pence, and yielding 26*s.* or 312 pence at maturity, gives the formula,  $312 \div 192 = (1+i)^{10}$  whence  $(\log 312 - \log 192) \div 10 = \log (1+i)$ , where  $i$  is the interest on 1 for one year. The rates of interest for intermediate years are found in the same way.

There is no doubt about the attractions of Savings Certificates from an investor's point of view, but it is worth considering

whether they are advantageous, or justifiable, from the standpoint of the tax-payer. The certificates are primarily intended for small investors, whose incomes are for the most part exempt from Income-tax. For such people a rate of interest such as 4.138, which is yielded by the third series certificates at the end of ten years, cannot be considered excessive, and a higher return could be obtained from other Government securities. The trouble is to fix terms which do justice to the small investor, without the State paying too high a rate of interest for the money of those purchasers of certificates who are liable for Income-tax and Super-tax, which are not charged upon the interest earned by certificates.

It was because of this Income-tax problem that it was originally decided that certificates could not be held by people whose incomes exceeded £300 a year. This proved to be an impracticable arrangement, and the holding of certificates was limited to five hundred, with the exception that there was no limit to the number of certificates that can be inherited, though when an individual holds more than five hundred he cannot buy any more.

The rate of interest paid upon certificates is being carefully watched, and should it at any time prove to be unduly high or low, the terms can be modified with no great difficulty. It should, however, be remembered that it is possible to give a comparatively high rate of interest to those who retain their certificates for a long period, because of the low rate payable if certificates are cashed within a few years of the date of purchase.

The Savings Certificate is a peculiarly flexible and convenient security, and has become the most popular and convenient channel through which, to the great benefit of the individual, substantial advantages can be conferred upon the community as a whole. While the money is being saved and interest paid upon it, the capital is used in one way or another to pay wages or buy materials, and so comes into circulation for the development of industry and the provision of employment.

If, as in course of time is likely to be the case, this habit of

systematic saving with a view to more but wiser spending becomes widespread within the United Kingdom or elsewhere, it will be a practical application of those economic influences which Alfred Marshall called 'One of the two great forming agencies of the life and character of man'.

## (i) CONTRIBUTIONS OF THE SMALL INVESTOR, 1914-1921

Year	Certificates less withdrawals	Post Office War Loans and Bonds	Increase or decrease in Savings Banks deposits	Totals
	£	£	£	£
1914 . . . (Aug.-Dec.)	—	—	1,152,000	1,152,000
1915 . . .	—	39,961,000	— 6,456,000	33,505,000
1916 . . .	42,081,000	43,934,000	11,938,000	97,953,000
1917 . . .	63,691,000	51,254,000	5,683,000	120,628,000
1918 . . .	102,062,000	38,528,000	38,813,000	179,403,000
1919 . . .	59,149,000	31,518,000	43,541,000	134,208,000
1920 . . .	12,955,000	7,201,000	2,658,000	22,814,000
1921 . . .	11,190,000	5,304,000	— 3,384,000	13,110,000
Totals .	291,128,000	217,700,000	93,945,000	602,773,000

The figures for Savings Banks include, and for Certificates exclude, accrued interest. The Savings Banks deposits for 1919 include £55,110,000 on account of War Gratuities to soldiers and sailors.

## (ii) SAVINGS CERTIFICATES SOLD AND CASHED, 1916-1925

(1) Year	(2) Sold	(3) Cashed	(4) Amount of principal outstanding	(5) Interest paid	(6) Cashed for each £1,000 outstanding
	£	£	£	£	£
1916 . . .	42,183,718	287,448	41,896,270	—	—
1917 . . .	67,010,818	3,135,733	105,771,355	11,464	42
1918 . . .	108,348,782	6,286,991	207,833,146	121,740	40
1919 . . .	79,013,449	19,864,618	266,981,977	870,737	84
1920 . . .	44,785,311	31,829,879	279,937,409	2,518,877	116
1921 . . .	42,148,948	30,959,083	291,127,274	4,866,190	108
1922 . . .	89,293,680	31,584,026	348,836,928	6,197,563	99
1923 . . .	51,547,960	32,933,018	367,451,870	7,049,044	92
1924 . . .	27,486,311	30,570,954	364,367,227	6,978,475	84
1925 . . .	30,805,637	28,421,071	372,751,793	7,015,484	77
Totals .	588,624,614	215,872,821	—	35,629,844	—

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